

In the opinion of Kutak Rock LLP, Bond Counsel, under existing laws, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and continuing compliance with certain covenants, interest on the Senior Series 2005A-1 Bonds and the Subordinate Series 2005B-1 Bonds is excluded from gross income for federal income tax purposes. However, interest on the Senior Series 2005A-1 Bonds and the Subordinate Series 2005B-1 Bonds is a specific preference item for purposes of the federal alternative minimum tax. Interest on the Senior Series 2005A-2 Bonds, the Senior Series 2005A-3 Bonds, the Senior Series 2005A-4 Bonds, the Senior Series 2005A-5 Bonds, the Senior Series 2005A-6 Bonds and the Senior Series 2005A-7 Bonds is not excludable from gross income under Section 103 of the Internal Revenue Code of 1986, as amended. In addition, in the opinion of Bond Counsel, under existing statutes, the 2005 Bonds and the income thereon and the transfer thereof, including any profit made on the sale thereof, shall at all times be exempt from taxation or assessment of any type by the Commonwealth of Kentucky, its agencies and departments and by all political subdivisions within the Commonwealth of Kentucky. For a more complete description, see "Tax Matters" herein.

**NEW ISSUE - Book-Entry Only**



**\$400,000,000**  
**Kentucky Higher Education Student Loan Corporation**  
**Student Loan Revenue Bonds**

**\$80,000,000 Senior Series 2005A-1**  
**(Tax-Exempt Auction Rate Certificates)**

**\$45,000,000 Senior Series 2005A-2**  
**(Taxable Auction Rate Certificates)**

**\$45,000,000 Senior Series 2005A-3**  
**(Taxable Auction Rate Certificates)**

**\$70,000,000 Senior Series 2005A-4**  
**(Taxable Auction Rate Certificates)**

**\$50,000,000 Senior Series 2005A-5**  
**(Taxable Auction Rate Certificates)**

**\$40,000,000 Senior Series 2005A-6**  
**(Taxable Auction Rate Certificates)**

**\$50,000,000 Senior Series 2005A-7**  
**(Taxable Auction Rate Certificates)**

**\$20,000,000 Subordinate Series 2005B-1**  
**(Tax-Exempt Auction Rate Certificates)**

**Dated:** Date of Delivery

**Price:** 100%

**Due:** June 1, 2035

The Senior Series 2005A-1 Bonds, the Senior Series 2005A-2 Bonds, the Senior Series 2005A-3 Bonds, the Senior Series 2005A-4 Bonds, the Senior Series 2005A-5 Bonds, the Senior Series 2005A-6 Bonds, the Senior Series 2005A-7 Bonds (collectively, the "Series 2005A Bonds") and the Subordinate Series 2005B-1 Bonds (the "Series 2005B-1 Bonds" and collectively with the Series 2005A Bonds, the "2005 Bonds") will be issued as Auction Rate Certificates – ARCs<sup>®</sup> ("ARCs"). The 2005 Bonds are being issued by the Kentucky Higher Education Student Loan Corporation (the "Corporation"), an independent *de jure* municipal corporation and political subdivision of the Commonwealth of Kentucky (the "Commonwealth"), pursuant to the provisions of an Indenture of Trust, dated as of August 1, 2004 (the "Original Indenture"), the Second Supplemental Indenture of Trust, dated as of September 1, 2005 (the "Second Supplemental Indenture") and additional supplemental indentures of trust as described herein (collectively with the Original Indenture, as previously supplemented, and the Second Supplemental Indenture, the "Indenture"), each between the Corporation and Wells Fargo Bank, N.A., as trustee (the "Trustee"). The 2005 Bonds are issuable in fully-registered form and when issued shall be registered in the name of Cede & Co. as nominee for The Depository Trust Company, New York, New York ("DTC"), which shall act as securities depository for the 2005 Bonds. Purchasers of the 2005 Bonds will not receive certificates representing their beneficial ownership interests in the 2005 Bonds. Purchases and sales by the beneficial owners of the 2005 Bonds shall be made in book-entry form. See "BOOK-ENTRY SYSTEM" herein.

Payments of principal, redemption price, and interest with respect to the 2005 Bonds are to be made directly to DTC by the Trustee or its successor, so long as DTC or Cede & Co. is the registered owner of the 2005 Bonds. Disbursements of such payments to DTC Participants (as defined herein) are the responsibility of DTC and the disbursements of such payments to the beneficial owners are the responsibility of DTC Participants as more fully described herein. Interest on the 2005 Bonds is payable as described herein until maturity or earlier redemption. The Applicable ARCs Rate or Auction Rate, as applicable, and Auction Periods shall be established from time to time pursuant to the Auction Procedures described herein. The Series 2005A Bonds are equal in right of payment to all Senior Obligations outstanding from time to time and are prior in right of payment under the Indenture to all Subordinate Obligations outstanding from time to time, including the Series 2005B-1 Bonds. The Series 2005B-1 Bonds are subordinate in right of payment to all Senior Obligations that may be outstanding from time to time, including the Series 2005A Bonds. The 2005 Bonds are subject to redemption, acceleration and, in certain cases, mandatory tender as described herein.

The 2005 Bonds are being issued for the purposes of (i) financing the origination and acquisition of Eligible Loans (as defined herein), (ii) making a deposit to the Debt Service Reserve Fund, and (iii) paying the costs associated with the issuance of the 2005 Bonds.

**THE 2005 BONDS ARE SPECIAL AND LIMITED OBLIGATIONS OF THE CORPORATION, SECURED BY AND PAYABLE SOLELY FROM SPECIFIC REVENUES, FUNDS, AND ASSETS OF THE CORPORATION PLEDGED THEREFOR PURSUANT TO THE INDENTURE AS HEREIN DESCRIBED. THE 2005 BONDS DO NOT CONSTITUTE AN INDEBTEDNESS, LIABILITY OR OBLIGATION OF THE COMMONWEALTH OR ANY POLITICAL SUBDIVISION THEREOF. THE PAYMENT OF THE PRINCIPAL OF AND INTEREST ON THE 2005 BONDS IS NOT SECURED BY A PLEDGE OF THE FAITH AND CREDIT OR THE TAXING POWER OF THE COMMONWEALTH OR ANY POLITICAL SUBDIVISION THEREOF. BONDHOLDERS ARE NOT ENTITLED TO LOOK TO THE COMMONWEALTH TO FULFILL THE FINANCIAL OBLIGATION REPRESENTED BY THE 2005 BONDS. THE CORPORATION HAS NO TAXING POWER.**

**PAYMENT OF PRINCIPAL AND INTEREST ON THE 2005 BONDS IS NOT INSURED OR GUARANTEED BY ANY GOVERNMENT AGENCY OR INSTRUMENTALITY, BY ANY INSURANCE COMPANY OR BY ANY OTHER PERSON OR ENTITY.**

The 2005 Bonds are offered when, as and if received by the Underwriter, subject to prior sale, to withdrawal or modification of the offer without notice and to the approval of legality by Kutak Rock LLP, Bond Counsel. Certain legal matters in connection with the 2005 Bonds will be passed upon for the Underwriter by its counsel, Krieg DeVault LLP. The 2005 Bonds are expected to be available for delivery in New York, New York through the facilities of DTC as described in "INTRODUCTION – Delivery" herein.

**UBS Financial Services Inc.**

Dated: August 26, 2005

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The information set forth herein has been obtained from the Corporation, the Kentucky Higher Education Assistance Authority ("KHEAA") and other sources that are believed to be reliable, but is not guaranteed as to accuracy or completeness, and is not to be construed as a representation, by the Underwriter. The information and expressions of opinion contained herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Corporation or KHEAA or that the information or opinions or estimates contained herein are correct as of any date subsequent to the date hereof.

No dealer, broker, salesman or other person has been authorized by the Corporation, KHEAA or the Underwriter to give any information or to make any representations with respect to the 2005 Bonds, other than those contained herein, and if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the 2005 Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

**IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 2005 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.**

**IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE CORPORATION AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THE 2005 BONDS HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS OFFICIAL STATEMENT.**

**THE UNDERWRITER HAS ADVISED THE CORPORATION THAT IT INTENDS INITIALLY TO MAKE A MARKET FOR THE 2005 BONDS BETWEEN AUCTIONS; HOWEVER, THE UNDERWRITER IS NOT OBLIGATED TO MAKE SUCH MARKET AND NO ASSURANCE CAN BE GIVEN THAT A SECONDARY MARKET FOR THE 2005 BONDS WILL DEVELOP.**

## TABLE OF CONTENTS

	<u>Page</u>
SUMMARY STATEMENT .....	i
INTRODUCTION .....	1
SOURCES AND USES OF FUNDS .....	3
CHARACTERISTICS OF FINANCED ELIGIBLE LOANS .....	3
SECURITY AND SOURCES OF PAYMENT FOR THE 2005 BONDS .....	4
CERTAIN RISK FACTORS .....	7
DESCRIPTION OF THE 2005 BONDS .....	15
BOOK-ENTRY SYSTEM .....	17
TAX-EXEMPT AUCTION RATE CERTIFICATES .....	19
TAXABLE AUCTION RATE CERTIFICATES .....	27
THE CORPORATION .....	34
THE GUARANTY AGENCY .....	39
CONTINUING DISCLOSURE .....	41
TAX MATTERS .....	43
ERISA CONSIDERATIONS .....	47
LEGALITY FOR INVESTMENT .....	49
ABSENCE OF MATERIAL LITIGATION .....	49
APPROVAL OF LEGALITY .....	49
RATINGS .....	49
UNDERWRITING .....	49
INDEPENDENT ACCOUNTANTS .....	50
MISCELLANEOUS .....	50
 SUMMARY OF CERTAIN PROVISIONS OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM .....	 APPENDIX A
GLOSSARY OF TERMS AND SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE .....	APPENDIX B
AUDITED FINANCIAL STATEMENTS OF THE CORPORATION .....	APPENDIX C
FORM OF OPINION OF BOND COUNSEL RELATING TO THE SERIES 2005A-1, SERIES 2005A-2, SERIES 2005A-3 AND SERIES 2005B-1 BONDS .....	APPENDIX D
FORMS OF OPINIONS OF BOND COUNSEL REGARDING CERTAIN FEDERAL INCOME TAX ISSUES RELATING TO THE SERIES 2005 TAXABLE BONDS .....	APPENDIX E
AUCTION PROCEDURES FOR THE TAX-EXEMPT ARCS .....	APPENDIX F
SETTLEMENT PROCEDURES FOR THE TAX-EXEMPT ARCS .....	APPENDIX G
AUCTION PROCEDURES FOR THE TAXABLE ARCS .....	APPENDIX H
SETTLEMENT PROCEDURES FOR THE TAXABLE ARCS .....	APPENDIX I

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## SUMMARY STATEMENT

This Summary Statement, being part of the Official Statement, is subject in all respects to more complete information contained herein. The offering of the 2005 Bonds to potential investors is made only by means of this entire Official Statement. No person is authorized to detach this Summary Statement from this Official Statement or to otherwise use it without this entire Official Statement. All terms used in this Summary Statement and not otherwise defined herein shall have the meanings specified in Appendix B, Appendix F or Appendix H.

<b>The Issuer</b>	Kentucky Higher Education Student Loan Corporation (the “Corporation”) is an independent <i>de jure</i> municipal corporation and political subdivision of the Commonwealth of Kentucky (the “Commonwealth”). See “THE CORPORATION”.
<b>The Offering</b>	The Corporation is offering hereby its Student Loan Revenue Bonds consisting of \$80,000,000 aggregate principal amount of Senior Series 2005A-1 Bonds (the “Series 2005A-1 Bonds”), \$45,000,000 aggregate principal amount of Senior Series 2005A-2 Bonds (the “Series 2005A-2 Bonds”), \$45,000,000 aggregate principal amount of Senior Series 2005A-3 Bonds (the “Series 2005A-3 Bonds”), \$70,000,000 aggregate principal amount of Senior Series 2005A-4 Bonds (the “Series 2005A-4 Bonds”), \$50,000,000 aggregate principal amount of Senior Series 2005A-5 Bonds (the “Series 2005A-5 Bonds”), \$40,000,000 aggregate principal amount of Senior Series 2005A-6 Bonds (the “Series 2005A-6 Bonds”), \$50,000,000 aggregate principal amount of Senior Series 2005A-7 Bonds (the “Series 2005A-7 Bonds”) and collectively with the Series 2005A-1 Bonds, the Series 2005A-2 Bonds, the Series 2005A-3 Bonds, the Series 2005A-4 Bonds, the Series 2005A-5 Bonds and the Series 2005A-6 Bonds, the “Series 2005A Bonds”) and \$20,000,000 aggregate principal amount of Subordinate Series 2005B-1 Bonds (the “Series 2005B-1 Bonds” and collectively with the Series 2005A Bonds, the “2005 Bonds”). The 2005 Bonds mature on June 1, 2035 and bear interest pursuant to the Auction Procedures described herein. The term “Bonds” as used herein shall refer to the 2005 Bonds, the Existing Bonds (as defined below) and any Additional Bonds issued under the Indenture in the future.
<b>Redemption</b>	The 2005 Bonds are subject to redemption prior to maturity at the option of the Corporation and under certain specified circumstances as described herein. The 2005 Bonds are also subject to extraordinary mandatory redemption under certain specified circumstances as described herein. See “DESCRIPTION OF THE 2005 BONDS – Redemption Provisions.”
<b>Priority</b>	The Indenture authorizes the issuance of Senior Obligations, Subordinate Obligations, and Junior Subordinate Obligations. See APPENDIX B – “GLOSSARY OF TERMS AND SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE.” The Corporation presently has outstanding \$350,000,000 of Student Loan Revenue Bonds under the Indenture (the “Existing Bonds”), of which \$339,000,000 constitute Senior Bonds (the “Existing Senior Bonds”) and \$11,000,000 constitute Subordinate Bonds (the “Existing Subordinate Bonds”). The Existing Senior Bonds, the Series 2005A Bonds and any additional Senior Bonds constitute Senior Obligations, and the rights of the owners of the Existing Senior Bonds, the Series 2005A Bonds and all other Senior Obligations are superior in priority of claim as to payment to such rights of the owners of any Subordinate Obligations or Junior-Subordinate Obligations, if any. The Existing Subordinate Bonds, the Series 2005B-1 Bonds and any additional Subordinate Bonds constitute Subordinate Obligations and the rights of the owners of the Existing Subordinate Bonds, the Series 2005B-1 Bonds and all other Subordinate Obligations, if any, are inferior in priority of claim as to payment to such rights of the owners of the Existing Senior Bonds, the Series 2005A Bonds and all other Senior Obligations, if any, and are superior in priority of claim as to payment to such rights of the owners of Junior-Subordinate Obligations, if any. No Junior-Subordinate

Obligations are presently outstanding. Junior-Subordinate Obligations issued in the future, if any, will be inferior in priority of claim as to payment to all Senior Obligations and Subordinate Obligations. Failure of the Corporation to pay principal of or interest on the Series 2005B-1 Bonds or any other Subordinate Obligations shall not be an Event of Default under the Indenture if any Senior Obligations are Outstanding. Additional Bonds secured by the Trust Estate may also be issued under the Indenture if each Rating Agency confirms that the issuance of the Additional Bonds will not cause such Rating Agency to withdraw or downgrade the rating on any Bonds.

**Purpose of Issuance**

The 2005 Bonds are being issued for the purposes of (i) financing the origination and acquisition of Eligible Loans (as defined herein), (ii) making a deposit to the Debt Service Reserve Fund, and (iii) paying the costs associated with the issuance of the 2005 Bonds. See “SOURCES AND USES OF FUNDS.”

**The 2005 Bonds**

While outstanding as Auction Rate Certificates (“ARCs”), the 2005 Bonds will be issued in denominations of \$50,000 or any integral multiple thereof and will mature on June 1, 2035. The 2005 Bonds will bear interest at the rates established from time to time as set forth herein.

The Series 2005A-1 Bonds and the Series 2005B-1 Bonds (the “Series 2005 Tax-Exempt Bonds”) will be issued as Tax-Exempt ARCs. The Series 2005A-2 Bonds, the Series 2005A-3 Bonds, the Series 2005A-4 Bonds, the Series 2005A-5 Bonds, the Series 2005A-6 Bonds and the Series 2005A-7 Bonds (the “Series 2005 Taxable Bonds”) will be issued as Taxable ARCs.

**Interest Payments**

Interest on the Series 2005 Tax-Exempt Bonds while outstanding as Tax-Exempt ARCs, prior to a change in the Interest Payment Dates as described herein, is payable semiannually on each June 1 and December 1 until maturity or earlier redemption, commencing December 1, 2005. See “TAX-EXEMPT AUCTION RATE CERTIFICATES – Interest.” The Auction Periods and Interest Payment Dates for the Series 2005 Tax-Exempt Bonds are subject to change, as described herein. See “TAX-EXEMPT AUCTION RATE CERTIFICATES – Changes in Tax-Exempt ARC Auction Periods or Tax-Exempt ARC Auction Date and Changes to and from BMA Auction Mode.”

Interest on the Series 2005A-2 Bonds and the Series 2005A-3 Bonds while outstanding as Taxable ARCs, prior to a change in the Interest Payment Dates as described herein, is payable on October 5, 2005 and thereafter on the day following each Interest Period (defined herein), until maturity or earlier redemption. Interest on the Series 2005A-4 Bonds, the Series 2005A-5 Bonds, the Series 2005A-6 Bonds and the Series 2005A-7 Bonds (collectively, the “2005 Additional Bonds”), prior to a change in the Interest Payment Dates as described herein, will be payable on the dates set forth in the Additional Series 2005 Supplemental Indentures executed and delivered in connection with the issuance of such Bonds and thereafter on the day following each Interest Period (defined herein) until maturity or earlier redemption. See “TAXABLE AUCTION RATE CERTIFICATES – Interest.” The Auction Periods and Interest Payment Dates for the Series 2005 Taxable Bonds are subject to change, as described herein. See “TAXABLE AUCTION RATE CERTIFICATES – Changes in Taxable ARC Auction Periods or Taxable ARC Auction Date.”

**Delivery**

The Series 2005A-1 Bonds, the Series 2005A-2 Bonds, the Series 2005A-3 Bonds and the Series 2005B-1 Bonds are expected to be issued and delivered on or about September 8, 2005. The Series 2005A-4 Bonds and the Series 2005A-5 Bonds will not be issued and delivered at that time, but rather are expected to be issued and delivered on or about December 13, 2005, or such other date as set forth in an

Additional Series 2005 Supplemental Indenture. Further, the Series 2005A-6 Bonds and the Series 2005A-7 Bonds will not be issued and delivered at that time, but rather are expected to be issued and delivered on or about March 14, 2006, or such other date as set forth in an Additional Series 2005 Supplemental Indenture. The Corporation may change closing dates and order of delivery for any series of the 2005 Additional Bonds provided that all of such 2005 Bonds must be issued on or prior to May 1, 2006. The delivery of each series of the 2005 Bonds is subject to certain conditions described in the Bond Purchase Contract for the 2005 Bonds which are required to be satisfied on each of the respective dates of issuance and delivery of the 2005 Bonds.

**Conversion to BMA Auction Mode** The interest rate on the Series 2005 Tax-Exempt Bonds while outstanding as Tax-Exempt ARCs may be changed to a BMA Auction Mode by the Market Agent (with the consent of the Corporation and the Broker-Dealer) under the circumstances described herein.

**Fixed Rate Conversion** The Series 2005 Tax-Exempt Bonds may be converted to bear interest at a Fixed Rate to their final maturity at the option of the Corporation under the circumstances described herein.

**Variable Rate Conversion** The Series 2005 Tax-Exempt Bonds may be converted to bear interest at a Variable Rate at the option of the Corporation under the circumstances described herein.

**Mandatory Tender Upon Conversion to Fixed Rate or Variable Rate** Bonds of any series of the Series 2005 Tax-Exempt Bonds converted to bear interest at a Fixed Rate or a Variable Rate are subject to mandatory tender for purchase as described herein, without right of retention.

**Sources of Revenue and Security** The Bonds, together with all other Obligations as may be entered into from time to time, are secured by and are payable solely from the trust estate created by the Indenture (the "Trust Estate"), subject to priority as described above under "Priority". The payment of the principal and interest on the Bonds is not secured by a pledge of the faith and credit or the taxing power of the Commonwealth or any political subdivision thereof. The Trust Estate includes Financed Eligible Loans to be held under the Indenture and moneys on deposit in certain of the funds and accounts established under the Indenture. Presently, all Financed Eligible Loans held under the Indenture consist of Higher Education Act Eligible Loans, and the Corporation expects that all Eligible Loans made or acquired with the proceeds of the 2005 Bonds will be Higher Education Act Eligible Loans. However, the Indenture permits the Corporation to finance HEAL Loans, Qualified Institution Loans and Alternative Student Loans upon receipt of a Rating Confirmation with respect to each different type of such loans. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2005 BONDS" and "CERTAIN RISK FACTORS – Taking of Certain Actions Based on Rating Confirmations".

Upon the initial delivery of the 2005 Bonds, it is anticipated that the value of the Trust Estate pledged under the Indenture will be equal to approximately (i) 104.6% of the aggregate principal amount of all Senior Bonds then outstanding under the Indenture; and (ii) 98.6% of the aggregate principal amount of all Senior Bonds and Subordinate Bonds then outstanding under the Indenture.

**Changes to the Federal Family Education Loan Program** The programs under the Higher Education Act have been the subject of numerous statutory and regulatory changes that have resulted in material modifications to such programs, and the Higher Education Act must be reauthorized (or extended) by October 1, 2005 in order for additional loans to be made thereunder on and after such date. It is possible that relevant federal laws, including the Higher Education Act, will be further changed in the future in a manner which might adversely affect the

characteristics, availability or volume of Eligible Loans which can be acquired by the Corporation. See “CERTAIN RISK FACTORS – Changes in the Higher Education Act or Other Relevant Law; Federal Direct Student Loan Program – *Future Changes in Relevant Law*” and APPENDIX A – “SUMMARY OF CERTAIN PROVISIONS OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM”.

**Certain Risk Factors**

Investment in the 2005 Bonds entails certain investment risks, which are summarized in this Official Statement under the heading “CERTAIN RISK FACTORS”.

**THE 2005 BONDS ARE SPECIAL AND LIMITED OBLIGATIONS OF THE CORPORATION, SECURED BY AND PAYABLE SOLELY FROM SPECIFIC REVENUES, FUNDS, AND ASSETS OF THE CORPORATION PLEDGED THEREFOR PURSUANT TO THE INDENTURE AS HEREIN DESCRIBED. THE 2005 BONDS DO NOT CONSTITUTE AN INDEBTEDNESS, LIABILITY OR OBLIGATION OF THE COMMONWEALTH OR ANY POLITICAL SUBDIVISION THEREOF. THE PAYMENT OF THE PRINCIPAL OF AND INTEREST ON THE 2005 BONDS IS NOT SECURED BY A PLEDGE OF THE FAITH AND CREDIT OR THE TAXING POWER OF THE COMMONWEALTH OR ANY POLITICAL SUBDIVISION THEREOF. BONDHOLDERS ARE NOT ENTITLED TO LOOK TO THE COMMONWEALTH TO FULFILL THE FINANCIAL OBLIGATION REPRESENTED BY THE 2005 BONDS. THE CORPORATION HAS NO TAXING POWER.**

**OFFICIAL STATEMENT**  
  
**of the**  
  
**KENTUCKY HIGHER EDUCATION STUDENT LOAN CORPORATION**  
  
**relating to its**  
  
**\$400,000,000**  
**Student Loan Revenue Bonds**

<b>\$80,000,000 Senior Series 2005A-1</b> <b>(Tax-Exempt Auction Rate Certificates)</b>	<b>\$50,000,000 Senior Series 2005A-5</b> <b>(Taxable Auction Rate Certificates)</b>
<b>\$45,000,000 Senior Series 2005A-2</b> <b>(Taxable Auction Rate Certificates)</b>	<b>\$40,000,000 Senior Series 2005A-6</b> <b>(Taxable Auction Rate Certificates)</b>
<b>\$45,000,000 Senior Series 2005A-3</b> <b>(Taxable Auction Rate Certificates)</b>	<b>\$50,000,000 Senior Series 2005A-7</b> <b>(Taxable Auction Rate Certificates)</b>
<b>\$70,000,000 Senior Series 2005A-4</b> <b>(Taxable Auction Rate Certificates)</b>	<b>\$20,000,000 Subordinate Series 2005B-1</b> <b>(Tax-Exempt Auction Rate Certificates)</b>

**INTRODUCTION**

This Official Statement, which includes the cover page, the Summary Statement and the Appendices hereto, provides information concerning the Kentucky Higher Education Student Loan Corporation (the "Corporation"), an independent *de jure* municipal corporation and political subdivision of the Commonwealth of Kentucky (the "Commonwealth"), and its issuance of \$400,000,000 in aggregate principal amount of Student Loan Revenue Bonds, consisting of the following series of Bonds, initially issued as Auction Rate Certificates – ARCs<sup>®</sup> ("ARCs"): the Senior Series 2005A-1 Bonds in the principal amount of \$80,000,000 (the "Series 2005A-1 Bonds"), the Senior Series 2005A-2 Bonds in the principal amount of \$45,000,000 (the "Series 2005A-2 Bonds"), the Senior Series 2005A-3 Bonds in the principal amount of \$45,000,000 (the "Series 2005A-3 Bonds"), the Senior Series 2005A-4 Bonds in the principal amount of \$70,000,000 (the "Series 2005A-4 Bonds"), the Senior Series 2005A-5 Bonds in the principal amount of \$50,000,000 (the "Series 2005A-5 Bonds"), the Senior Series 2005A-6 Bonds in the principal amount of \$40,000,000 (the "Series 2005A-6 Bonds"), the Senior Series 2005A-7 Bonds in the principal amount of \$50,000,000 (the "Series 2005A-7 Bonds" and collectively with the Series 2005A-1 Bonds, the Series 2005A-2 Bonds, the Series 2005A-3 Bonds, the Series 2005A-4 Bonds, the Series 2005A-5 Bonds and the Series 2005A-6 Bonds, the "Series 2005A Bonds") and the Subordinate Series 2005B-1 Bonds in the principal amount of \$20,000,000 (the "Series 2005B-1 Bonds" and collectively with the Series 2005A Bonds, the "2005 Bonds"). The 2005 Bonds are being issued pursuant to the provisions of Sections 164A.010 to 164A.240, inclusive, of the Kentucky Revised Statutes, as amended (the "Corporation Act"), and an Indenture of Trust, dated as of August 1, 2004 (the "Original Indenture"), the Second Supplemental Indenture of Trust, dated as of September 1, 2005 (the "Second Supplemental Indenture") and additional supplemental indentures of trust as described herein (collectively with the Original Indenture, as previously supplemented, and the Second Supplemental Indenture, the "Indenture"), each between the Corporation and Wells Fargo Bank, N.A., as trustee (the "Trustee"). The Corporation presently has outstanding \$350,000,000 of Student Loan Revenue Bonds under the Indenture (the "Existing Bonds"), of which \$339,000,000 constitute Senior Bonds (the "Existing Senior Bonds") and \$11,000,000 constitute Subordinate Bonds (the "Existing Subordinate Bonds"). The term "Bonds" as used herein shall refer to the Existing Bonds, the 2005 Bonds and any Additional Bonds issued under the Indenture in the future.

Capitalized terms used and not otherwise defined herein shall have the meanings given them in APPENDIX B – "GLOSSARY OF TERMS AND SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE," APPENDIX F – "AUCTION PROCEDURES FOR THE TAX-EXEMPT ARCS" and APPENDIX H – "AUCTION PROCEDURES FOR THE TAXABLE ARCS".

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The 2005 Bonds are being issued for the purposes of (a) financing the origination and acquisition of Eligible Loans (as defined herein), (b) making a deposit to the Debt Service Reserve Fund, and (c) paying the costs associated with the issuance of the 2005 Bonds. See “SOURCES AND USES OF FUNDS.”

**Delivery.** The Series 2005A-1 Bonds, the Series 2005A-2 Bonds, the Series 2005A-3 Bonds and the Series 2005B-1 Bonds are expected to be issued and delivered on or about September 8, 2005. The Series 2005A-4 Bonds and the Series 2005A-5 Bonds will not be issued and delivered at that time, but rather are expected to be issued and delivered on or about December 13, 2005, or such other date as set forth in an Additional Series 2005 Supplemental Indenture. Further, the Series 2005A-6 Bonds and the Series 2005A-7 Bonds will not be issued and delivered at that time, but rather are expected to be issued and delivered on or about March 14, 2006, or such other date as set forth in an Additional Series 2005 Supplemental Indenture. The Corporation may change the closing dates and order of delivery for any of the Series 2005A-4 Bonds, Series 2005A-5 Bonds, Series 2005A-6 Bonds and Series 2005A-7 Bonds provided that all of such Bonds must be issued on or prior to May 1, 2006. The delivery of each series of the 2005 Bonds is subject to certain conditions described in the Bond Purchase Contract for the 2005 Bonds which are required to be satisfied on each of the respective dates of issuance and delivery of the 2005 Bonds.

The 2005 Bonds will bear interest at the rates established from time to time as set forth herein. The Series 2005A-1 Bonds and the Series 2005B-1 Bonds (collectively, the “Series 2005 Tax-Exempt Bonds”) will be issued initially as Tax-Exempt ARCs and the Series 2005A-2 Bonds, the Series 2005A-3 Bonds, the Series 2005A-4 Bonds, the Series 2005A-5 Bonds, the Series 2005A-6 Bonds and the Series 2005A-7 Bonds (collectively, the “Series 2005 Taxable Bonds”) will be issued as Taxable ARCs. Interest on each series of 2005 Bonds will be payable as described herein.

The interest rate on the Series 2005 Tax-Exempt Bonds while outstanding as Tax-Exempt ARCs may be changed to a BMA Auction Mode by the Market Agent (with the consent of the Corporation and the Broker-Dealer) under the circumstances described herein.

All or a portion of the Series 2005 Tax-Exempt Bonds may be converted to bear interest at a Fixed Rate to their final maturity or to a Variable Rate at the option of the Corporation under the circumstances described herein. Bonds of any series of Series 2005 Tax-Exempt Bonds converted to bear interest at a Fixed Rate or at a Variable Rate are subject to mandatory tender for purchase prior to such conversion as described herein without right of retention.

The Indenture authorizes the issuance of Senior Obligations, Subordinate Obligations, and Junior Subordinate Obligations. See APPENDIX B – “GLOSSARY OF TERMS AND SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE.” The Existing Senior Bonds, the Series 2005A Bonds and any additional Senior Bonds constitute Senior Obligations, and the rights of the owners of the Existing Senior Bonds, the Series 2005A Bonds and all other Senior Obligations are superior in priority of claim as to payment to such rights of the owners of the Existing Subordinate Bonds, the Series 2005B-1 Bonds, any additional Subordinate Obligations or Junior-Subordinate Obligations, if any. The Existing Subordinate Bonds, the Series 2005B-1 Bonds and any additional Subordinate Bonds constitute Subordinate Obligations and the rights of the owners of the Existing Subordinate Bonds, the Series 2005B-1 Bonds and all other Subordinate Obligations, if any, are inferior in priority of claim as to payment to such rights of the owners of the Existing Senior Bonds, the Series 2005A Bonds and all other Senior Obligations, if any, and are superior in priority of claim as to payment to such rights of the owners of Junior-Subordinate Obligations, if any. No Junior-Subordinate Obligations are presently outstanding. Junior-Subordinate Obligations issued in the future, if any, will be inferior in priority of claim as to payment to all Senior Obligations and Subordinate Obligations.

This Official Statement contains a description of the 2005 Bonds while outstanding as ARCs but does not address any terms or conditions which would be applicable to any series of the Series 2005 Tax-Exempt Bonds if converted to bear interest at a Fixed Rate or a Variable Rate.

**THE 2005 BONDS ARE SPECIAL AND LIMITED OBLIGATIONS OF THE CORPORATION, SECURED BY AND PAYABLE SOLELY FROM SPECIFIC REVENUES, FUNDS, AND ASSETS OF THE CORPORATION PLEDGED THEREFOR PURSUANT TO THE INDENTURE AS HEREIN DESCRIBED.**

**THE 2005 BONDS DO NOT CONSTITUTE AN INDEBTEDNESS, LIABILITY OR OBLIGATION OF THE COMMONWEALTH OR ANY POLITICAL SUBDIVISION THEREOF. THE PAYMENT OF THE PRINCIPAL OF AND INTEREST ON THE 2005 BONDS IS NOT SECURED BY A PLEDGE OF THE FAITH AND CREDIT OR THE TAXING POWER OF THE COMMONWEALTH OR ANY POLITICAL SUBDIVISION THEREOF. BONDHOLDERS ARE NOT ENTITLED TO LOOK TO THE COMMONWEALTH TO FULFILL THE FINANCIAL OBLIGATION REPRESENTED BY THE 2005 BONDS. THE CORPORATION HAS NO TAXING POWER.**

The Trustee is the initial paying agent and registrar for the 2005 Bonds. Descriptions of the Corporation, the Guaranty Agency (as herein defined), the 2005 Bonds, the Corporation's education finance and servicing activities, the Indenture and related documents are included in this Official Statement. The descriptions of such documents included in this Official Statement do not purport to be comprehensive or definitive and are qualified in their entirety by reference to such documents, which documents are on file with the Trustee.

### **SOURCES AND USES OF FUNDS**

The Corporation will issue an aggregate of \$400 million of 2005 Bonds on multiple dates, including \$190 million on September 8, 2005; and expected issuances of \$120 million on or about December 13, 2005, or such other date as set forth in an Additional Series 2005 Supplemental Indenture and \$90 million on or about March 14, 2006, or such other date as set forth in an Additional Series 2005 Supplemental Indenture. The Corporation expects to apply the aggregate proceeds of the 2005 Bonds as set forth below for the purposes of (i) financing the origination and acquisition of Eligible Loans (as defined herein), (ii) making a deposit to the Debt Service Reserve Fund, and (iii) paying the costs associated with the issuance of the 2005 Bonds.

#### Sources

Bond Proceeds	<u>\$400,000,000</u>
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Total Sources	<u>\$400,000,000</u>
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#### Uses

Eligible Loan Origination and Acquisition	\$395,300,000
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Debt Service Reserve Fund	3,000,000
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Estimated Costs of Issuance (including Underwriter's discount)	<u>1,700,000</u>
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Total Uses	<u>\$400,000,000</u>
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### **CHARACTERISTICS OF FINANCED ELIGIBLE LOANS**

As of May 31, 2005, Financed Eligible Loans in an aggregate principal amount of \$301,904,899 were held under the Indenture. Set forth below are selected characteristics of such Financed Eligible Loans as of May 31, 2005.

#### **Financed Eligible Loans by Loan Type**

Status	Current Principal	Percentage of Total
Subsidized Stafford	\$130,087,352	43.09%
Unsubsidized Stafford	95,632,696	31.68%
PLUS/SLS	11,116,594	3.68%
Consolidation	65,068,257	21.55%
Total	\$301,904,899	100.00%

### Financed Eligible Loans by Repayment Status

Status	Current Principal	Percentage of Total
In School	\$176,445,698	58.44%
Repayment	61,732,098	20.45%
In Grace	38,921,312	12.89%
Deferment	13,309,741	4.41%
Forbearance	11,496,050	3.81%
Total	\$301,904,899	100.00%

The characteristics of the Eligible Loans held under the Indenture as of May 31, 2005 will change over time, including upon the issuance of the 2005 Bonds and the use of the proceeds thereof to make and acquire Eligible Loans. No assurance can be given that changes in the future will not be significant or that they will not be adverse.

### SECURITY AND SOURCES OF PAYMENT FOR THE 2005 BONDS

#### General

The Bonds, including the 2005 Bonds, are special and limited obligations of the Corporation, secured by and payable solely from specific revenues, funds, and assets of the Corporation pledged therefor pursuant to the Indenture as herein described. The Bonds do not constitute an indebtedness, liability or obligation of the Commonwealth or any political subdivision thereof. The payment of the principal of and interest on the Bonds is not secured by a pledge of the faith and credit or the taxing power of the Commonwealth or any political subdivision thereof. Bondholders are not entitled to look to the Commonwealth to fulfill the financial obligation represented by the Bonds. The Corporation has no taxing power.

Payment of principal and interest on the Bonds is not insured or guaranteed by any government agency or instrumentality, by any insurance company or by any other person or entity.

The Corporation Act provides that any pledge made by the Corporation shall be valid and binding from the time made and further provides that the income, revenue or other property so pledged and thereafter received by the Corporation shall immediately be subject to the lien of such pledge without any physical delivery or further act, and that the lien of any such pledge shall be valid and binding as against all parties having claims of any kind in tort, contract or otherwise against the Corporation irrespective of whether such parties have notice thereof. Pursuant to the Indenture, the Corporation has pledged the Trust Estate (as hereinafter described) to the Trustee to secure the 2005 Bonds, the Existing Bonds and other Obligations issued or incurred from time to time under the Indenture.

The Bonds are special and limited obligations of the Corporation secured by and payable solely from the Trust Estate established under the Indenture pursuant to which the Bonds are issued. The Trust Estate includes: (a) the Revenues (other than Revenues deposited in the Rebate Fund or the Operating Fund or otherwise released from the lien of the Trust Estate pursuant to the Indenture); (b) all money and investments held in the Funds created under the Indenture (other than the Rebate Fund and the Operating Fund); (c) the Financed Eligible Loans; (d) the rights of the Corporation in and to the Guarantee Agreement and any Servicing Agreements and Student Loan Purchase Agreements, as the same relate to Financed Eligible Loans; (e) the Corporation's rights in and to any Swap Facility and any Swap Provider Payments; (f) the rights of the Corporation in any collateral for Qualified Institution Loans, including without limitation, any Eligible Loans financed by a Qualifying Institution with the proceeds of a Qualified Institution Loan; and (g) any and all other property, rights and interests of every kind or description that from time to time hereafter is granted, conveyed, pledged, transferred, assigned or delivered to the Trustee as additional security under the Indenture. No assets of the Corporation other than the Trust Estate are pledged to or available for the payment of the Bonds.

Upon the initial delivery of the 2005 Bonds, it is anticipated that the value of the assets pledged under the Indenture to secure the Bonds will equal (i) approximately 104.6% of the principal amount of the Senior Bonds then



Outstanding; and (ii) approximately 98.6% of the aggregate principal amount of all Senior and Subordinate Bonds then Outstanding under the Indenture.

### **Financed Eligible Loans**

Financed Eligible Loans consist of all Eligible Loans held under the Indenture, including Eligible Loans originated or acquired from the proceeds of the Bonds and moneys received as payments on Financed Eligible Loans. The Corporation is authorized to utilize such payments to originate or acquire additional Eligible Loans until July 1, 2008, or such later date as does not adversely affect the ratings on any Bonds.

“Eligible Loans” may consist of Higher Education Act Eligible Loans, HEAL Loans, Qualified Institution Loans and Alternative Student Loans. “Higher Education Act Eligible Loans” are loans made to finance post-secondary education that are made under the Higher Education Act of 1965, as amended (the “Higher Education Act”) and are Guaranteed or Insured. See APPENDIX A—“SUMMARY OF CERTAIN PROVISIONS OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM.” “HEAL Loans” are loans insured by the Secretary of Health and Human Services (or its successor) pursuant to the Public Health Services Act made to finance education. “Qualified Institution Loans” are loans made by the Corporation to a Qualifying Institution for the purpose of funding Higher Education Act Eligible Loans or Alternative Student Loans by such institution to students or parents of students attending such institution to finance the students’ attendance at such institution. “Alternative Student Loans” are loans, other than Higher Education Act Eligible Loans, HEAL Loans or Qualified Institution Loans, made directly or indirectly to borrowers to finance higher education.

Presently, all Financed Eligible Loans held under the Indenture consist of Higher Education Act Eligible Loans, and the Corporation expects that all Eligible Loans made or acquired with the proceeds of the 2005 Bonds will be Higher Education Act Eligible Loans. However, the Indenture permits the Corporation to finance HEAL Loans, Qualified Institution Loans and Alternative Student Loans upon receipt of a Rating Confirmation with respect to each different type of such loans.

### **Revenues**

The Revenues pledged under the Indenture include, generally, all principal and interest payments received on behalf of or with respect to the Financed Eligible Loans, including any interest benefit payments, special allowance payments or default recoveries; all investment earnings on moneys in the various Funds established under the Indenture other than the Rebate Fund; payments received by the Corporation pursuant to a Swap Facility; and the proceeds of any sale or other disposition of the Financed Eligible Loans.

### **Debt Service Reserve Fund**

The Bonds are secured by, among other things, a Debt Service Reserve Fund which is created by the Indenture and pledged to the security and payment of all Obligations incurred under the Indenture. Amounts on deposit in the Debt Service Reserve Fund are to be used by the Trustee to pay amounts due on Obligations. However, prior to using any moneys in the Debt Service Reserve Fund to make payments with respect to any Obligations, the Trustee is required to use amounts in the Revenue Fund and the Loan Fund for the purpose of making such payments on Obligations. The Debt Service Reserve Fund shall be maintained at a level at least equal to the Debt Service Reserve Fund Requirement, which means with respect to the Existing Bonds and the 2005 Bonds an amount equal to 0.75% of the principal amount thereof then Outstanding, or a lesser amount with a Rating Confirmation; provided, however, that so long as any Existing Bonds or Bonds remain Outstanding there shall be at least \$500,000 on deposit in the Debt Service Reserve Fund. There is no assurance that the Debt Service Reserve Fund Requirement will be maintained, increased, decreased or funded upon the issuance of any Additional Bonds. All amounts in the Debt Service Reserve Fund are available for payment for all Obligations Outstanding under the Indenture and, upon the issuance of any Additional Bonds, such amounts in the Debt Service Reserve Fund will become available for payment of such Additional Bonds, in accordance with the priority of payment established under the Indenture.

### **Certain Payment Priorities**

The Trust Estate is pledged equally and ratably first to the payment of the Senior Obligations, including the Existing Senior Bonds and the Series 2005A Bonds, second to the payment of the Subordinate Obligations, including the Existing Subordinate Bonds and Series 2005B-1 Bonds, and third to the payment of the Junior-Subordinate Obligations, if any, all as provided in the Indenture. See APPENDIX B—"GLOSSARY OF TERMS AND SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE".

### **Additional Bonds and Other Obligations**

The Indenture permits the execution and delivery of Additional Bonds and permits certain Corporation Swap Payments due pursuant to Swap Facilities to be secured by the Trust Estate. Any such Additional Bonds or Corporation Swap Payments may be Senior Obligations, Subordinate Obligations or Junior-Subordinate Obligations.

Prior to the execution and delivery of any Additional Bonds the following conditions, among others, must be satisfied:

- (a) The Corporation and the Trustee must have entered into a Supplemental Indenture (which Supplemental Indenture shall not require the approval of the registered owners of any of the Outstanding Bonds or Swap Facilities) providing the terms and forms of the Additional Bonds, including designation of the Additional Bonds as Senior Bonds, Subordinate Bonds or Junior-Subordinate Bonds, whether such Additional Bonds are Taxable Bonds or Tax-Exempt Bonds, the redemption and selection provisions applicable to such Additional Bonds and the Debt Service Reserve Fund Requirement related to such Additional Bonds, if any;
- (b) The Trustee shall have received a Rating Confirmation with respect to any Outstanding Bonds;
- (c) The Trustee shall have received an opinion of Bond Counsel to the effect that the issuance of the Additional Bonds will not adversely affect the excludability of interest from gross income with respect to any Outstanding Bonds which are Tax-Exempt Bonds;
- (d) The Trustee shall have received an opinion of Bond Counsel to the effect that the foregoing conditions have been met;
- (e) Upon execution and delivery of the Additional Bonds, an amount equal to the Debt Service Reserve Fund Requirement related to such Additional Bonds, if any, shall be deposited in the Debt Service Reserve Fund; and
- (f) The Trustee shall have received a Corporation Order to authenticate and deliver the Additional Bonds.

The Corporation shall not enter into a Swap Facility unless the Trustee shall have received a Rating Confirmation.

## CERTAIN RISK FACTORS

Investors should consider the risk factors set forth below before deciding to purchase 2005 Bonds. **This section of this Official Statement does not include all risk factors, but is an attempt to summarize certain of such matters. Investors should read this Official Statement in its entirety.**

### **Factors Affecting Sufficiency and Timing of Receipt of Revenues in the Trust Estate**

The Corporation expects that the Revenues to be received pursuant to the Indenture will be sufficient to pay principal of and interest on the Bonds, including the 2005 Bonds, when due and also to pay the annual cost of all Trustee fees, servicing costs and other expenses related thereto and the Financed Eligible Loans until the final maturity or earlier redemption of such Bonds. This expectation is based upon an analysis of cash flow assumptions, which the Corporation believes are reasonable, regarding the timing of the financing of such Eligible Loans to be held pursuant to the Indenture, the future composition of and yield on the Financed Eligible Loan portfolio, the rate of return on moneys to be invested in various Funds and Accounts under the Indenture, and the occurrence of future events and conditions. There can be no assurance, however, that the Eligible Loans will be financed as anticipated, that interest and principal payments from the Financed Eligible Loans will be received as anticipated, that the reinvestment rates assumed on the amounts in various Funds and Accounts will be realized, or that Special Allowance Payments will be received in the amounts and at the times anticipated. Furthermore, future events over which the Corporation has no control may adversely affect the Corporation's actual receipt of Revenues pursuant to the Indenture.

Receipt of principal of and interest on Financed Eligible Loans may be accelerated due to various factors, including, without limitation: (a) default claims or claims due to the disability, death or bankruptcy of the borrowers greater than those assumed; (b) actual principal amortization periods which are shorter than those assumed based upon the current analysis of the Financed Eligible Loans and the Eligible Loans expected to be financed with proceeds of the 2005 Bonds; (c) the commencement of principal repayment by borrowers on earlier dates than are assumed based upon the current analysis of the Financed Eligible Loans and the Eligible Loans expected to be financed with proceeds of the 2005 Bonds; (d) economic conditions that induce borrowers to refinance or repay their loans prior to maturity; and (e) changes in federal law that may affect the timing of the receipt of funds by the Corporation. Lenders may make Consolidation Loans to borrowers for the purpose of retiring certain borrowers' existing loans under various federal higher education loan programs. To the extent that Financed Eligible Loans are repaid with Consolidation Loans, the Corporation will realize payment of such loans earlier than projected.

Delay in the receipt of principal of and interest on Financed Eligible Loans may adversely affect payment of the principal of and interest on the Bonds when due. Principal of and interest on Financed Eligible Loans may be delayed due to numerous factors, including, without limitation: (a) borrowers entering deferment periods due to a return to school or other eligible purposes; (b) forbearance being granted to borrowers; (c) loans in delinquency for periods longer than assumed; (d) actual loan principal amortization periods which are longer than those assumed based upon the current analysis of the Financed Eligible Loans and the Eligible Loans expected to be financed with proceeds of the 2005 Bonds; and (e) the commencement of principal repayment by borrowers at dates later than those assumed based upon the current analysis of the Financed Eligible Loans and the Eligible Loans expected to be financed with proceeds of the 2005 Bonds.

The Corporation believes that in a fluctuating interest rate environment a factor affecting the prepayment rate on a large pool of loans similar to the Financed

Eligible Loans is the difference between the interest rates on the loans (giving consideration to the cost of any refinancing) and prevailing interest rates generally. In general, if interest rates fall below the interest rates on the Financed Eligible Loans, the rate of prepayment would be expected to increase. Conversely, if interest rates rise above the interest rates on the Financed Eligible Loans, the rate of prepayment would be expected to decrease. Other factors affecting prepayment of Financed Eligible Loans include changes in the borrower's jobs, transfers, unemployment, loan forbearances and deferments, and refinancing opportunities which may provide more favorable repayment terms such as those offered under various consolidation loan programs, including the Federal direct consolidation loan programs.

If the actual receipt of Revenues under the Indenture or actual expenditures vary greatly from those projected, amounts in the Funds and Accounts may be insufficient to pay the principal of and interest on the Bonds and amounts owing on other Obligations when due. In the event that Revenues to be received under the Indenture are insufficient to pay the principal of and interest on the Bonds and amounts owing on any other Obligations when due, the Indenture authorizes, and under certain circumstances requires, the Trustee to declare an Event of Default, accelerate the payment of the Bonds, and sell the Financed Eligible Loans and all other assets comprising the Trust Estate. It is possible, however, that the Trustee would not be able to sell the Financed Eligible Loans and the other assets comprising the Trust Estate in a timely manner or for an amount sufficient to permit payment of the principal of and accrued interest on all Outstanding Bonds when due and all amounts due with respect to other Obligations.

Failure to pay amounts owing on Subordinate Obligations (including the Existing Subordinate Bonds and the Series 2005B-1 Bonds) when due to the extent amounts in the Funds and Accounts are not available for such purposes under and in accordance with the Indenture does not constitute an Event of Default under the Indenture so long as any Senior Obligations are Outstanding.

#### **Priority of Payment and Enforcement of Rights**

The Series 2005A Bonds and the Existing Senior Bonds constitute Senior Obligations, and the Series 2005B-1 Bonds and the Existing Subordinate Bonds constitute Subordinate Obligations, under the Indenture. The Corporation reserves the right to issue Additional Bonds or obligations which are equal or inferior in priority to any Senior Obligations Outstanding or which are superior, equal or inferior to Subordinate Obligations, including the Series 2005B-1 Bonds and the Existing Subordinate Bonds. Under the Indenture, on each Interest Payment Date, or other date on which principal of the Bonds is payable, the Trustee is required to pay from the Revenue Fund, prior to making any payment on the Series 2005B-1 Bonds and the Existing Subordinate Bonds on any such date, the amounts due on the Senior Bonds. The Indenture provides that nonpayment of the principal of or interest on Subordinate Obligations, including the Series 2005B-1 Bonds and the Existing Subordinate Bonds while there are any Senior Obligations Outstanding, will not constitute an Event of Default under the Indenture giving rise to a right on the part of owners of such Subordinate Obligations to accelerate the Bonds or to exercise any other remedy. See Appendix B – "GLOSSARY OF TERMS AND SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE."

#### **Interest Rate Risk**

The interest rates on the 2005 Bonds while outstanding as Auction Rate Certificates will be based on auctions of those 2005 Bonds and will fluctuate from one interest period to another, and in the case of Tax-Exempt ARCs in a BMA Auction Mode, within the interest period, in response to changes in benchmark rates or general market conditions. The interest rates for other series of Bonds issued in the future may be fixed or based on auctions, or other indices, formulas or methods of

determination. The Corporation can make no representation as to what such rates may be in the future. The Financed Eligible Loans, however, generally bear interest at an effective rate (taking into account any Special Allowance Payments, the “Loan Rates”) equal to the average bond equivalent rates of weekly auctions of certain United States Treasury bills or rates of interest on 3-month commercial paper plus margins specified for such Financed Eligible Loans. See APPENDIX A---“SUMMARY OF CERTAIN PROVISIONS OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM” hereto. As a result of these differences between the indices or methodologies used to determine the Loan Rates and the interest rates on Bonds issued under the Indenture, there could be periods of time when the Loan Rates are inadequate to cover the interest on the Bonds and Program Expenses. Further, if there is a decline in the Loan Rates, the amount of funds representing interest deposited in the Trust Estate may be reduced and, even if there is a similar reduction in the variable interest rates applicable to any series of Bonds, there may not necessarily be a similar reduction in the other amounts required to be funded out of such funds (such as certain Program Expenses).

**Carry-over Amount**

The Applicable ARCs Rates on the Series 2005 Taxable Bonds while outstanding as Taxable ARCs will be limited to the Maximum Rate. See APPENDIX H---“AUCTION PROCEDURES FOR THE TAXABLE ARCS” hereto. For an Interest Payment Date on which the Maximum Rate applies to the Series 2005 Taxable Bonds, the difference between the amount of interest at the Auction Rate or the Maximum Interest Rate (whichever is less) and the amount of interest at the Maximum Rate will be paid on succeeding Interest Payment Dates to the extent of available funds pursuant to the Indenture and may never be paid.

**Features of the Auction Market**

The ability of any holder of ARCs to sell such ARCs in any Auction is directly contingent upon the Auction Agent’s receipt of Sufficient Clearing Bids. If Sufficient Clearing Bids are not received, Submitted Orders will be accepted or rejected as summarized in Appendix F under “Auction Procedures Other than BMA Auction Mode--Acceptance and Rejection of Submitted Bids and Submitted Sell Orders and Allocation of ARCs” and “BMA Auction Procedures-- Acceptance and Rejection of Submitted Bids and Submitted Sell Orders and Allocation of ARCs” and in Appendix H under “--Acceptance and Rejection of Submitted Bids and Submitted Sell Orders and Allocation of ARCs”, and an Existing Owner of ARCs who submits a Sell Order may be required to continue to hold such ARCs.

As noted above, if there are more ARCs offered for sale than there are buyers for those ARCs in any Auction, the Auction will fail and an investor may not be able to sell some or all of the investor’s ARCs at that time. The relative buying and selling interest of market participants in the ARCs and in the auction rate securities market as a whole may vary over time, may be adversely affected by, among other things, news relating to the Corporation, the attractiveness of alternative investments, the perceived risk of owning the security (whether related to credit, liquidity or any other risk), the tax treatment accorded the instruments, the accounting treatment accorded auction rate securities, including recent clarifications of U.S. generally accepted accounting principles relating to the treatment of ARCs, reactions to regulatory actions or press reports, financial reporting cycles and market sentiment generally. Shifts of demand in response to any of the factors listed above cannot be predicted and may be short-lived or exist for longer periods.

The Auction Agency Agreements provide that the Auction Agent may resign from its duties as Auction Agent by giving at least 90 days notice, or 30 days notice if it has not been compensated for its services for more than 30 days after such fee is due, to the Corporation, the Trustee and the Market Agent and does not require, as a condition to the effectiveness of such resignation, that a replacement Auction Agent

be in place if its compensation has not been paid. The Broker-Dealer Agreements provide that either party thereto may terminate such agreement upon 5 days notice or immediately, in certain circumstances, and does not require, as a condition to the effectiveness of such termination, that a replacement Broker-Dealer be in place. The Second Supplemental Indenture requires, however, that there shall, at all times, be at least one Broker-Dealer appointed and acting as such. For any Auction Period during which there is no duly appointed Auction Agent, or during which there is no duly appointed Broker-Dealer, it will not be possible to hold Auctions, with the result that the Interest Rate on the ARCs will be at the Maximum Rate.

A Broker-Dealer may submit an order in Auctions for its own account. If a Broker-Dealer submits an order for its own account in any Auction, it might have an advantage over other bidders in that it would have knowledge of orders placed through it in that Auction; such Broker-Dealer, however, would not have knowledge of orders submitted by other Broker-Dealers (if any) in that Auction. As a result of bidding by a Broker-Dealer in an Auction, the Auction Rate may be lower than the rate that would have prevailed had the Broker-Dealer not bid. A Broker-Dealer may also bid in an Auction in order to prevent what would otherwise be (a) a failed Auction, (b) an “all-hold” Auction (ARCs in the BMA Auction Mode are not subject to an “all-hold” Auction), or (c) the implementation of an Auction Rate that the Broker-Dealer believes, in its sole judgment, does not reflect the market for such securities at the time of the Auction. Broker-Dealers may, but are not obligated to, advise Owners of ARCs, as applicable, that the Auction Rate that will apply in an “all-hold” Auction is often a lower rate than would apply if Owners submit Bids, and such advice, if given, may facilitate the submission of Bids by Existing Owners that would avoid the occurrence of an “all-hold” Auction. A Broker-Dealer may encourage bidding by others to prevent a failed Auction or an Auction Rate it believes is not a market rate (although, if applicable, it should encourage bidding at a rate to prevent an All Hold Rate). In the Broker-Dealer Agreements, all Broker-Dealers will agree to handle customer orders in accordance with their respective duties under applicable securities laws and rules.

The Broker-Dealer has advised the Corporation that it intends initially to make a market for the ARCs between Auctions; however, the Broker-Dealer is not obligated to make such market, and no assurance can be given that a secondary market for the 2005 Bonds will develop.

The Underwriter of the 2005 Bonds and the Broker-Dealer have advised the Corporation that the Underwriter and various other Broker-Dealers and other firms have received letters from the staff of the Securities and Exchange Commission (the “SEC”) in the Spring of 2004. The letters requested that each of these firms voluntarily conduct an investigation regarding its respective practice and procedures in that market. Pursuant to these requests, the Underwriter conducted its own voluntary review and reported their findings to the SEC. At the SEC staff’s request, the Underwriter is engaging in discussion with SEC staff concerning its inquiry. Neither the Underwriter nor the Corporation can predict the ultimate outcome of the inquiry or how the outcome will affect the market for the 2005 Bonds or the Auctions.

**Changes in the Higher Education Act or Other Relevant Law; Federal Direct Student Loan Program**

***Future Changes in Relevant Law.*** Since its original enactment in 1965, the Higher Education Act has been amended and reauthorized numerous times and Congress is currently engaged in the reauthorization process. Certain of these amendments have significantly affected the federal student loan programs under the Higher Education Act. In addition, the United States Department of Education (the “Department”) continues to engage in the rulemaking process to revise the regulations promulgated by the Department under the Higher Education Act. The Department’s authority to

provide interest subsidies and federal insurance for loans originated under the Higher Education Act Amendments of 1998 extended the authorization for the Federal Family Education Loan Program (the “FFEL Program”) to loans made on or before September 30, 2004. Last year Congress passed, and the President signed into law, the Higher Education Extension Act of 2004, which temporarily extends the programs under the Higher Education Act, including the FFEL Program, through federal fiscal year 2005.

During the reauthorization process, proposed amendments to the Higher Education Act are common and numerous such bills have been introduced in Congress this term. These bills propose myriad changes to the Higher Education Act, including changing loan limits, decreasing origination fees and changing interest rate provisions, and eliminating the 9.5% floor return on certain loans which previously might have qualified for such floor. These changes could affect the loans expected to be held under the Indenture following the issuance of the 2005 Bonds. It is not possible to predict whether or when any of such proposals may be adopted, in what form they may be adopted, or the final content of any such proposals and their effect upon the Corporation’s education loan finance program.

While Congress has consistently extended the effective date of the Higher Education Act and the FFEL Program, it may elect not to reauthorize the Department’s ability to provide interest subsidies and federal insurance for loans. This failure to reauthorize could adversely impact the Corporation’s education loan finance program. There can be no assurance that the Higher Education Act, or other relevant law or regulations, will not be changed in a manner that could adversely impact the Corporation’s education loan finance program.

***Changes to Federal Family Education Loan Program.*** The Higher Education Act and the FFEL Program have been subject to numerous amendments and changes over the years. These changes have included, among other things, changes in the calculation of interest rates and special allowance payments on federal student loans, changes in the requirements to offer alternate payment plans to borrowers, additional loan forgiveness provisions, and additional restrictions on guarantors’ use of funds. As a result of the changes to the FFEL Program, the net revenues resulting to holders of student loans have in some cases been reduced and may be further reduced in the future. In addition, expansion of the FDSL Program described below may result in reduction over time in the volume of loans made under the FFEL Program. As these reductions occur, cost increases and revenue reductions for guarantee agencies may occur. For a further description of the FFEL Program, see APPENDIX A -- “SUMMARY OF CERTAIN PROVISIONS OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM.”

***Federal Direct Student Loan Program.*** The Student Loan Reform Act of 1993 established the William D. Ford Federal Direct Student Loan Program (the “FDSL Program”). Under the FDSL Program, approved institutions of higher education, or alternative loan originators approved by the Department of Education, make loans to students or parents without application to or funding from outside lenders or guarantors. The Department of Education provides the funds for such loans, and the program provides for a variety of flexible repayment plans, including extended, graduated and income-contingent repayment plans, forbearance of payments during periods of national service and consolidation under the FDSL Program of existing student loans. Such consolidation permits borrowers to prepay existing student loans and consolidate them into a Federal Direct Consolidation Loan under the FDSL Program. The FDSL Program also provides certain programs under which principal may be forgiven or interest rates may be reduced.

The first loans under the FDSL Program were made available for the 1994-1995 academic year, and the Higher Education Act provided for phase-in goals through the 1998-1999 academic year, for which direct loans were to have represented 60% of new student loan volume under the Higher Education Act (excluding Consolidation Loans). No provision was made for the size of the FDSL Program after the 1998-1999 academic year and the current size of the FDSL Program is well below the 60% goal described above. Although the goals set for the FDSL Program were never achieved and the program has decreased in volume over recent years, its introduction involved reduction over time in the volume of loans made under the FFEL Program and the continued existence of the FDSL Program may impact the volume of loans made under the FFEL Program unless the FDSL Program is limited or eliminated legislatively.

***Federal Budgetary Legislation.*** The availability of various federal payments in connection with the FFEL Program is subject to federal budgetary appropriation. In recent years, federal budgetary legislation has been enacted which has provided, subject to certain conditions, for the mandatory curtailment of certain federal budget expenditures, including expenditures in connection with the FFEL Program and the recovery of certain advances previously made by the federal government to state guarantee agencies in order to achieve certain deficit reduction guidelines. No representation is made as to the effect, if any, of future federal budgetary appropriation or legislation upon expenditures by the Department of Education, or the effect, if any, of any future legislation or regulations upon the Corporation's Program or other factors that could potentially affect timely payment of the Bonds, including the 2005 Bonds.

#### **Financial Status of the Guaranty Agencies**

A deterioration in the financial status of a Guaranty Agency could result in the inability of such Guaranty Agency to make guaranty claim payments to the Corporation. Among the possible causes of deterioration in a Guaranty Agency's financial status are: (a) the amount and percentage of defaulting Higher Education Act Eligible Loans guaranteed by such Guaranty Agency; (b) an increase in the costs incurred by such Guaranty Agency in connection with Higher Education Act Eligible Loans guaranteed; and (c) a reduction in revenues received in connection with Higher Education Act Eligible Loans guaranteed. The Higher Education Act grants the Department of Education broad powers over Guaranty Agencies and their reserves. These provisions create a risk that the resources available to the Guaranty Agencies to meet their guaranty obligations may be reduced and no assurance can be given that exercise of such powers by the Department of Education will not affect the overall financial condition of the Guaranty Agencies. Under Section 432(o) of the Higher Education Act, if the Department of Education has determined that a Guaranty Agency is unable to meet its guaranty obligations, the loan holder may submit claims directly to the Department of Education and the Department of Education is required to pay the full guaranty claim amount due with respect thereto in accordance with guaranty claim processing standards no more stringent than those of the Guaranty Agency. However, the Department of Education's obligation to pay guaranty claims directly in this fashion is contingent upon the Department of Education making the determination referred to above. There can be no assurance that the Department of Education would ever make such a determination with respect to any specific Guaranty Agency or, if such a determination was made, whether such determination or the ultimate payment of such guaranty claims would be made in a timely manner. Virtually all of the Financed Eligible Loans are, and will be, guaranteed by a single Guaranty Agency, the Kentucky Higher Education Assistance Authority. See "THE GUARANTY AGENCY -- The Kentucky Higher Education Assistance Authority" and APPENDIX A -- "SUMMARY OF CERTAIN PROVISIONS OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM".



## **Noncompliance with the Higher Education Act**

Noncompliance with the Higher Education Act with respect to Higher Education Act Eligible Loans by any lender, any Guaranty Agency, any Servicer or the Corporation may adversely affect payment of principal of and interest on the Bonds when due. The Higher Education Act and the applicable regulations thereunder require the lenders making Higher Education Act Eligible Loans, guarantors guaranteeing such loans and servicers servicing such loans to follow certain due diligence procedures in an effort to ensure that Higher Education Act Eligible Loans are properly made and disbursed to, and timely repaid by, the borrowers. Such due diligence procedures include certain loan application procedures, certain loan origination procedures and, when a student loan is in default, certain loan collection procedures. The procedures to make, guarantee and service Higher Education Act Eligible Loans are specifically set forth in the Code of Federal Regulations, and no attempt has been made in this Official Statement to completely describe those procedures in their entirety. Failure to follow such procedures may result in the refusal by the Department of Education to make reinsurance payments to a Guaranty Agency on such loans or may result in the Guaranty Agency's refusal to honor its guarantee on such loans to the Corporation. Such action by the Department of Education could adversely affect a Guaranty Agency's ability to honor guarantee claims made by the Corporation, and loss of guarantee payments to the Corporation by a Guaranty Agency could adversely affect payment of principal of and interest on the Bonds, including the 2005 Bonds.

If the Department of Education or the Guaranty Agency determines that the Corporation owes a liability to the Department of Education or the Guaranty Agency on any Higher Education Act Eligible Loan for which the Corporation is legal titleholder (regardless of whether such loan is held under the Trust Estate), the Department of Education or the Guaranty Agency might seek to collect that liability by offsetting against payments due to the Corporation on Financed Eligible Loans that are part of the Trust Estate. Such offsetting or shortfall of payments could adversely affect the amount of Revenues and the Corporation's ability to pay principal of and interest on the Bonds, including the 2005 Bonds.

*Recent Developments.* The Office of Inspector General ("OIG") has recently audited at least one lender with respect to certain of its billing practices with respect to a particular aspect of what is referred to as a "9.5% floor rate of return" on certain of its student loans. In that instance, and with regard to the particular issues presented, the Department of Education ultimately issued a final determination letter generally concurring with the lender's billing methodologies. Certain members of Congress have recently urged the Secretary of the Department of Education to examine other entities that have received the benefit of the 9.5% floor rate of return, and at least one such entity has publicly announced that it has recently become the subject of an OIG audit with respect to the 9.5% floor rate of return.

Presently, approximately one-half of the student loans held under the Indenture receive the benefit of the 9.5% floor rate of return. Following the application of proceeds of the 2005 Bonds as described under "SOURCES AND USES OF FUNDS," approximately one-quarter of the student loans held under the Indenture will receive the benefit of 9.5% floor rate return. It is possible that additional OIG audits could occur on various aspects of 9.5% floor rate of return billing in the future. The Corporation believes its billing practices regarding the 9.5% floor rate of return comply with the Higher Education Act and Department of Education guidelines, and are consistent with industry practice.

## **Uncertainty as to Available Remedies**

The remedies available to owners of the Bonds upon an event of default under the Indenture or other documents described herein are in many respects dependent upon regulatory and judicial actions which often are subject to discretion and delay.

Under existing constitutional and statutory law and judicial decisions, including specifically Title 11 of the United States Code (the federal bankruptcy code), the remedies specified by the Indenture and such other documents may not be readily available or may be limited. The various legal opinions to be delivered concurrently with the issuance of the 2005 Bonds will be qualified, as to the enforceability of the various legal instruments, by limitations imposed by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally and by limitations on the availability of equitable remedies. See APPENDIX D—“FORM OF OPINION OF BOND COUNSEL” and APPENDIX E—“FORMS OF OPINIONS OF BOND COUNSEL REGARDING CERTAIN FEDERAL INCOME TAX ISSUES RELATING TO THE SERIES 2005 TAXABLE BONDS” hereto. In addition, the Higher Education Act provides that a security interest in student loans made pursuant to the FFEL Program may be perfected either through the taking of possession of the promissory notes evidencing such loans (or copies thereof) or by the filing of notice of such security interest in the manner in which security interests in accounts may be perfected by applicable state law. If, through fraud, inadvertence or otherwise, a third-party lender or purchaser acting in good faith were to obtain possession of any of the promissory notes evidencing the Financed Eligible Loans (or copies thereof), any security interest of the Trustee in the related Financed Eligible Loans could be defeated.

**Taking of Certain Actions  
Based on Rating  
Confirmations**

The Indenture provides that the Corporation and the Trustee may undertake various actions based upon receipt by the Trustee of confirmation from the Rating Agencies that the outstanding respective ratings assigned by such Rating Agencies to the Bonds are not thereby impaired. Such actions include the execution and delivery of Additional Bonds, the inclusion in the Trust Estate of additional Eligible Loans which are not Higher Education Act Eligible Loans, the extension of certain dates for the acquisition or origination of Higher Education Act Eligible Loans, amendments to the Indenture, and the acquisition of certain investments.

**General Economic  
Conditions**

Certain general economic conditions such as a downturn in the economy resulting in increasing unemployment either regionally or nationally may result in an increase in defaults by borrowers in repaying Eligible Loans, thus causing increased default claims to be paid by Guaranty Agencies. It is impossible to predict the status of the economy or unemployment levels or at which point a downturn in the economy would impair a Guaranty Agency’s ability to pay default claims. General economic conditions may also be effected by other events including the prospect of increased hostilities abroad. Certain such events may have other effects, the impact of which are difficult to project.

**Servicemembers Civil  
Relief Act**

The Servicemembers Civil Relief Act (the “Relief Act”) provides relief to borrowers who enter active military service and to borrowers in reserve status who are called to active duty after the origination of their student loan. The Relief Act limits the ability of a lender of Higher Education Act Eligible Loans to take legal action against a borrower during the borrower’s period of active duty and, in some cases, during an additional three month period thereafter. As a result, there may be delays in payment and increased losses on the Financed Eligible Loans.

The Department of Education has issued guidelines that extend the in-school status, in-school deferment status, grace period status or forbearance status of certain borrowers ordered to active duty. Further, if a borrower is in default on a Higher Education Act Eligible Loan, the applicable Guaranty Agency must, upon being notified that the borrower has been called to active duty and during certain time periods as from time to time designated by the Department of Education, cease all collection activities for the expected period of the borrower’s military service.

The number and aggregate principal balance of Financed Eligible Loans that have been or may be affected by the application of the Relief Act and the Department of Education's recent guidelines is not known at this time.

**Higher Education Relief  
Opportunities for Students  
Act of 2003**

The Higher Education Relief Opportunities for Students Act of 2003 ("HEROES Act of 2003"), authorizes the Secretary, during the period ending September 30, 2005, to waive or modify any statutory or regulatory provisions applicable to student financial aid programs under Title IV of the Higher Education Act as the Secretary deems necessary to ensure that student loan borrowers who: are serving on active military duty during a war or other military operation or national emergency, reside or are employed in an area that is declared by any federal, state or local office to be a disaster area in connection with a national emergency, or suffered direct economic hardship as a direct result of war or other military operation or national emergency, as determined by the Secretary, to ensure that such recipients of student financial assistance are not placed in a worse financial position in relation to that assistance, to ensure that administrative requirements in relation to that assistance are minimized, to ensure that calculations used to determine need for such assistance accurately reflect the financial condition of such individuals, to provide for amended calculations of overpayment, and to ensure that institutions of higher education, eligible lenders, guaranty agencies and other entities participating in such student financial aid programs that are located in, or whose operations are directly affected by, areas that are declared to be disaster areas by any federal, state or local official in connection with a national emergency may be temporarily relieved from requirements that are rendered infeasible or unreasonable. The Secretary was given this same authority under the Higher Education Relief Opportunities for Students Act of 2001, but the Secretary has yet to use this authority to provide specific relief to servicepersons with loan obligations who are called to active duty. The HEROES Act of 2003 has been reintroduced to extend the authority of the act until September 30, 2007. The proposal, H.R. 2132, has been referred to the House Subcommittee on 21<sup>st</sup> Century Competitiveness, but no further action has been taken at this time.

The number and aggregate principal balance of Financed Eligible Loans that may be affected by the application of the HEROES Act of 2003 is not known at this time. Accordingly, payments received by the Corporation on Financed Eligible Loans made to a borrower who qualifies for such relief may be subject to certain limitations. If a substantial number of borrowers of the Financed Eligible Loans become eligible for the relief provided under the HEROES Act of 2003, there could be an adverse effect on the total collections on the Financed Eligible Loans and the ability of the Corporation to pay interest on the Bonds, including the 2005 Bonds.

## **DESCRIPTION OF THE 2005 BONDS**

### **General**

The 2005 Bonds will be dated their date of delivery, will mature on June 1, 2035 and will bear interest as described below. The 2005 Bonds will be issued as Auction Rate Certificates-ARCs ("ARCs") in denominations of \$50,000 or any multiple thereof ("Authorized Denominations"). The 2005 Bonds are subject to redemption prior to maturity, as described below, and acceleration prior to maturity, as described in APPENDIX B – "GLOSSARY OF TERMS AND SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE." The Series 2005 Tax-Exempt Bonds are also subject to mandatory tender for purchase prior to conversion to bear interest at a Fixed Rate or Variable Rate. See APPENDIX F – "AUCTION PROCEDURES FOR THE TAX-EXEMPT ARCs." The 2005 Bonds are issuable only in fully registered form, registered in the name of Cede & Co. as nominee for The Depository Trust Company, New York, New York ("DTC"). The principal of each 2005 Bond is payable to the Registered Owner (initially, Cede & Co. as nominee for DTC) upon presentation and surrender of the 2005 Bond at the designated corporate trust office of the Trustee. Interest on the 2005 Bonds is payable by the Trustee to Cede &

Co. as nominee for DTC, as Registered Owner of record. Interest on the 2005 Bonds is payable to Beneficial Owners (defined below) of the 2005 Bonds according to the procedures described under "BOOK-ENTRY SYSTEM".

Should the Corporation discontinue the book-entry-only system for the 2005 Bonds and issue certificates to the Beneficial Owners, then interest will be payable by check or draft of the Trustee mailed to the person in whose name such 2005 Bonds are registered at the close of business on the Record Date. In the event the book-entry-only system is discontinued for the 2005 Bonds, the Beneficial Owners of such 2005 Bonds should be aware of the following restrictions on transfer and exchange which will then apply: the Trustee will not be obligated to register the transfer of or exchange any 2005 Bond (a) during a period beginning on the date 2005 Bonds are selected for redemption and ending on the day of the mailing of a notice of redemption of 2005 Bonds selected for redemption; (b) which 2005 Bond or portion thereof has been called for redemption; or (c) during the period beginning on the applicable Record Date and ending on the Interest Payment Date therefor.

### **Redemption Provisions**

***Extraordinary Redemption.*** The Series 2005 Tax-Exempt Bonds are subject to extraordinary redemption by the Corporation, in whole or in part, on any date, at a redemption price equal to the principal amount thereof (and without premium) plus interest accrued, if any, to the date of redemption thereof, from moneys on deposit in the Series 2005 Tax-Exempt Loan Subaccount (a) which represent moneys deposited in the Series 2005 Tax-Exempt Loan Subaccount on the date of issuance of the Series 2005 Tax-Exempt Bonds which have not been used to acquire Eligible Loans by the date which is twelve months following the date of issuance of such Series 2005 Tax-Exempt Bonds, (b) which represent Recoveries of Principal received after the end of the Recycling Period from Eligible Loans acquired directly or indirectly from the proceeds of the Series 2005 Tax-Exempt Bonds, or (c) if the Corporation shall suffer unreasonable burdens or excessive liabilities in connection with the operation of its Program or the redemption of the Series 2005 Tax-Exempt Bonds shall be required or necessary under applicable law or regulations of the Secretary to enable the Corporation to continue to receive various federal benefits, all as evidenced by a Corporation Order.

The Series 2005 Taxable Bonds are subject to extraordinary redemption by the Corporation, in whole or in part, on any date at a redemption price equal to the principal amount thereof (and without premium) plus interest accrued, if any, to the date of redemption thereof, from moneys on deposit in the Series 2005 Taxable Loan Subaccount (a) which represent moneys deposited in the Series 2005 Taxable Loan Subaccount on the dates of issuance of the Series 2005 Taxable Bonds which have not been used to acquire Eligible Loans by the date which is twelve months following the date of issuance of such Series 2005 Taxable Bonds, (b) which represent Recoveries of Principal received after the end of the Recycling Period from Eligible Loans acquired directly or indirectly with the proceeds of the Series 2005 Taxable Bonds or (c) if the Corporation shall suffer unreasonable burdens or excessive liabilities in connection with the operation of its Program or the redemption of the Series 2005 Taxable Bonds shall be required or necessary under applicable law or regulations of the Secretary to enable the Corporation to continue to receive various federal benefits, all as evidenced by a Corporation Order.

***Optional Redemption.*** So long as the 2005 Bonds are outstanding as ARCs, the 2005 Bonds are redeemable from any source of funds at the option of the Corporation in whole or in part on any date at a redemption price of par plus accrued, unpaid interest, without premium.

***Notice of Redemption.*** The Trustee shall cause notice of any redemption to be given by mailing or delivering by electronic means a copy of the redemption notice to the Registered Owner of any 2005 Bonds designated for redemption in whole or in part, at its address as the same shall last appear upon the registration books and each Rating Agency, not more than 25 nor less than 10 days prior to the redemption date for 2005 Bonds bearing interest at an Auction Rate; provided, however, that failure to give such notice, or any defect therein, shall not affect the validity of any proceedings for the redemption of such 2005 Bonds for which no such failure or defect occurs.

Each notice of redemption shall state the following: (a) the full designated name of the issue, including the series designation, (b) the CUSIP number, (c) the principal amounts of each 2005 Bond to be redeemed, (d) the date of redemption, (e) the redemption price, (f) the name of the Trustee and the address and phone number of the

Trustee's office handling the redemption, (g) the date of the 2005 Bonds, (h) the interest rate (to the extent such rate is a Fixed Rate), (i) the maturity date, (j) the place or places of payment, (k) that payment will be made upon presentation and surrender of the 2005 Bonds to be redeemed, and (l) that on and after said date interest thereon will cease to accrue.

***Selection of 2005 Bonds for Redemption.*** If less than all of the 2005 Bonds are to be redeemed, the Corporation shall determine the series of the 2005 Bonds to be redeemed (and the Corporation shall provide the Trustee with a Corporation Order with respect thereto). If less than all of a series of the 2005 Bonds are to be redeemed, and there is more than one Registered Owner of the 2005 Bonds, such 2005 Bonds to be redeemed shall be selected by a random method in such manner as the Trustee shall determine. In case a 2005 Bond is of a denomination larger than \$50,000, the Trustee shall treat such 2005 Bond as representing that number of 2005 Bonds which is obtained by dividing the principal amount of such Bond by \$50,000, and any such portion of such 2005 Bond (in multiples of \$50,000) may be redeemed. Upon surrender of any 2005 Bond for redemption in part only, the Corporation shall execute and the Trustee shall authenticate and deliver to the Registered Owner thereof, the cost of which shall be paid by the Corporation, a new 2005 Bond or Bonds, as the case may be, of authorized denominations, in an aggregate principal amount equal to the unredeemed portion of the 2005 Bond surrendered.

No Subordinate Bonds issued under the Indenture, including the Series 2005B-1 Bonds, may be redeemed unless (a) immediately after and taking into account such redemption, the Aggregate Market Value of the assets in the Trust Estate will be not less than 108% of the unpaid principal amount of all Senior Obligations Outstanding and 103% of all Senior and Subordinate Obligations Outstanding, or (b) such redemption shall not adversely affect any Rating on any of the Bonds and the Trustee shall have received a Rating Confirmation with respect thereto.

### **Recycling Provisions**

The Corporation may transfer funds in the Revenue Fund to the Loan Fund as permitted by the Indenture to be used to originate or purchase additional Eligible Loans. Any such Eligible Loans must be originated or purchased on or prior to July 1, 2008, unless such date is extended, without adversely affecting the Rating on any of the Bonds, as evidenced by a Rating Confirmation.

### **BOOK-ENTRY SYSTEM**

Beneficial ownership interests in the 2005 Bonds will be available in book-entry form only. Purchases and sales by the Beneficial Owners of 2005 Bonds can be made in the applicable Authorized Denominations or any integral multiple thereof. Purchasers of beneficial ownership interests in the 2005 Bonds will not receive certificates representing their interests in the 2005 Bonds purchased and will not be Holders under the Indenture, except as described below.

DTC, New York, New York, will act as securities depository for the 2005 Bonds. The 2005 Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered bond certificate is to be issued for each series of the 2005 Bonds, as set forth in the cover page hereof, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges in Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly-owned subsidiary of The

Depository Trust & Clearing Corporation (“DTCC”). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s highest rating: AAA. The DTC rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

Purchases of the 2005 Bonds under the DTC system must be made by or through DTC Participants, which will receive a credit for the 2005 Bonds on DTC’s records. The ownership interest of each actual purchaser of each 2005 Bond (a “Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participant’s records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2005 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the 2005 Bonds, except in the event that use of the book-entry system for the 2005 Bonds is discontinued.

To facilitate subsequent transfers, all 2005 Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of the 2005 Bonds with DTC and their registration in the name of Cede & Co. do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2005 Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such 2005 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners may wish to take certain steps to augment transmission to them of notices of significant events with respect to the 2005 Bonds such as redemptions, tenders, defaults, and proposed amendments to the 2005 Bond documents. For example, Beneficial Owners may wish to ascertain that the nominee holding the 2005 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.

Redemption notices shall be sent to Cede & Co. If less than all of the 2005 Bonds are being redeemed, DTC’s practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC, nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the 2005 Bonds unless authorized by a Direct Participant in accordance with DTC procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the issuer or trustee, as appropriate, as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.’s consenting or voting rights to those Direct Participants to whose accounts the 2005 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the 2005 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC’s practice is to credit Direct Participants’ accounts upon DTC’s receipt of funds and corresponding detail information from the Corporation, on payable date in accordance with their respective holdings shown on DTC’s records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in “street name” and will be the responsibility of such Participant and not of DTC, the Trustee or the Corporation, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and

dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Corporation, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the 2005 Bonds at any time by giving reasonable notice to the Corporation or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, bond certificates are required to be printed and delivered.

The Corporation may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, bond certificates will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Corporation believes to be reliable, but neither the Corporation nor the Underwriter takes any responsibility for the accuracy thereof.

*Neither the Corporation, the Underwriter nor the Trustee shall have any responsibility or obligation to any DTC Participant, any Beneficial Owner or other persons claiming a beneficial ownership interest in the 2005 Bonds under or through DTC or any DTC Participant, with respect to: (i) the accuracy of any records maintained by DTC or any DTC Participant with respect to the beneficial ownership interest in the 2005 Bonds; (ii) the payment by DTC or any DTC Participant of any amount in respect of the principal of and premium, if any, or interest on the 2005 Bonds to any Beneficial Owner or other person for the 2005 Bonds; or (iii) the delivery to any Beneficial Owner of the 2005 Bonds, or any other person, of any notice that is permitted or required to be given to owners under the Indenture. Neither the Corporation nor the Trustee shall have any responsibility with respect to obtaining consents from anyone other than the registered owners.*

No assurance can be given by the Corporation or the Trustee that DTC will distribute to the Participants or the Participants will distribute to the Beneficial Owners: (i) payment of debt service on the 2005 Bonds paid to DTC or its nominee, as the registered owner; or (ii) any redemption or other notices, or that DTC or the DTC Participants will serve or act on a timely basis or in a manner described in this Official Statement.

## **TAX-EXEMPT AUCTION RATE CERTIFICATES**

### **General**

The Series 2005A-1 Bonds and the Series 2005B-1 Bonds will be issued as Tax-Exempt Auction Rate Certificates, shall be dated the date of initial delivery thereof and shall mature on June 1, 2035. "Tax-Exempt ARCs" means the Series 2005A-1 Bonds and the Series 2005B-1 Bonds outstanding as Auction Rate Certificates, prior to their conversion to bear interest at a Fixed Rate or a Variable Rate. Certain capitalized terms used herein with respect to the Tax-Exempt ARCs are defined in Appendix F to this Official Statement.

### **Interest**

**Interest Payments.** Interest on the Series 2005 Tax-Exempt Bonds while they are Outstanding as Tax-Exempt ARCs shall accrue for each Interest Period (and, during any BMA Auction Mode, for each BMA Weekly Period within an Interest Period) and shall be payable in arrears, on each succeeding Interest Payment Date. An "Interest Payment Date" for the Tax-Exempt ARCs means each June 1 and December 1, or if any such date is not a Business Day, the next succeeding Business Day (but only for interest accrued through the preceding May 31 or November 30), commencing December 1, 2005, and in all cases at maturity or earlier redemption, upon mandatory tender and upon conversion to or from a BMA Auction Mode, or if any such date is not a Business Day, the next succeeding Business Day. Interest Payment Dates may change in the event of a change in the length of one or more Auction Periods. An "Interest Period" with respect to the Tax-Exempt ARCs means, (a) with respect to each series of the Series 2005 Tax-Exempt Bonds, so long as interest is payable on June 1 and December 1 with respect thereto and unless otherwise changed as described below under "Changes in Tax-Exempt ARC Auction Periods or Tax-Exempt ARC Auction Date and Changes to and from BMA Auction Mode -- Changes in Tax-Exempt ARC Auction



Period or Periods,” the Initial Interest Period and each successive period of generally 35 days thereafter, respectively, commencing on a Wednesday (or the Business Day following the last day of the prior Interest Period, if the prior Interest Period does not end on a Tuesday) and ending on (and including) a Tuesday (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day that is followed by a Business Day), and (b) if, and for so long as, Interest Payment Dates are specified to occur at the end of each Auction Period, as described below under “Changes in Tax-Exempt ARC Auction Periods or Tax-Exempt ARC Auction Date and Changes to and from BMA Auction Mode -- Changes in Tax-Exempt ARC Auction Period or Periods,” each period commencing on an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date.

The amount of interest distributable to holders of Tax-Exempt ARCs in respect of each \$50,000 in principal amount thereof for any Interest Period or part thereof shall be calculated by the Trustee by applying the Applicable ARCs Rate for such Interest Period or part thereof to the principal amount of \$50,000, multiplying such product by the actual number of days in the Interest Period or part thereof divided by 365 or 366, as applicable, and truncating the resultant figure to the nearest cent. Interest on the Tax-Exempt ARCs shall be computed by the Trustee on the basis of a 365-day year for the number of days actually elapsed; except that for any such calculation with respect to an Interest Payment Date occurring after January 1 of a leap year through December 31 of a leap year, such interest (for any day occurring during such period) shall be computed on the basis of a 366-day year. The Trustee shall make the calculation described above not later than the close of business on each Auction Date and date preceding any Interest Payment Date upon receipt of the relevant information from the Auction Agent.

Interest payments on the Tax-Exempt ARCs are to be made by the Trustee to DTC as the registered Owner of the Tax-Exempt ARCs, as of the Record Date preceding each Interest Payment Date. The Tax-Exempt ARCs are to be registered in the name of Cede & Co., as nominee of DTC, which is acting as the Depository for the Tax-Exempt ARCs. See “BOOK-ENTRY SYSTEM” for a description of how DTC, as Owner, is expected to disburse such payments to the Beneficial Owners.

***Applicable ARCs Rate.*** The rate of interest on the Tax-Exempt ARCs for each Interest Period, subsequent to the Initial Interest Period, shall be equal to the annual rate of interest that results from implementation of the Auction Procedures described in Appendix F (the “Auction Rate”), unless the Auction Rate exceeds the Maximum Rate, in which case the rate of interest on the Tax-Exempt ARCs for such Interest Period (or BMA Weekly Period in the case of the Tax-Exempt ARCs in the BMA Auction Mode) shall be the Maximum Rate or unless the Maximum Rate shall actually be lower than the All Hold Rate, if applicable, in which case the rate of interest on the Tax-Exempt ARCs for such Interest Period shall be the Maximum Rate; provided that if, on any Auction Date, an Auction is not held for any reason, then the rate of interest for the next succeeding Interest Period shall be equal to the Maximum Rate on such Auction Date; provided further, however, that if an Auction is scheduled to occur for the next Interest Period on a date that was reasonably expected to be a Business Day, but such Auction does not occur because such date is later not considered to be a Business Day, the Auction shall nevertheless be deemed to have occurred, and the applicable Auction Rate in effect for the next Interest Period will be the Auction Rate in effect for the preceding Interest Period and such Interest Period will generally be, with respect to each series of Tax-Exempt ARCs, 35 days in duration beginning on the calendar day following the date of the deemed Auction and ending on (and including) the applicable Auction Date (unless such date is not followed by a Business Day, in which case on the next succeeding day that is followed by a Business Day). If the preceding Interest Period was other than, with respect to each series of Tax-Exempt ARCs, generally 35 days in duration, the Auction Rate for the deemed Auction will instead be the rate of interest determined by the Market Agent on equivalently rated auction securities with a comparable length of auction period or in the case of Tax-Exempt ARCs which were in the BMA Auction Mode based upon an Interest Period of 35 days no longer in the BMA Auction Mode. Notwithstanding the foregoing, (a) if the ownership of the Tax-Exempt ARCs is no longer maintained in book-entry form by DTC, the rate of interest on the Tax-Exempt ARCs for any Interest Period commencing after the delivery of certificates representing Tax-Exempt ARCs as described above shall be the Maximum Rate established on the Business Day immediately preceding the first day of such Interest Period, (b) if a Payment Default occurs, Auctions will be suspended and the Applicable ARC Rate (as defined below) for the Interest Period commencing on or after such Payment Default and for each Interest Period thereafter to and including the Interest Period, if any, during which, or commencing less than two Business Days after, such Payment Default is cured will equal the Default Rate; or (c) if a proposed conversion to a Fixed Rate or Variable Rate shall have failed, as described below under the caption “Inadequate Funds for Tender of Tax-Exempt ARCs; Failed Conversion of Tax-Exempt ARCs,” or a proposed conversion to a BMA Auction Mode as described under “Changes in Tax-Exempt ARC Auction Periods and Tax-Exempt ARC



Auction Dates – Changes to and from BMA Auction Mode and During Auction Mode,” and the next succeeding Auction Date shall be two or fewer Business Days after (or on) any such failed Rate Conversion Date (as hereinafter defined) or date proposed for conversion to a BMA Auction Mode, then an Auction shall not be held on such Auction Date and the rate of interest on the Tax-Exempt ARCs subject to the failed conversion for the next succeeding Interest Period shall be equal to the Maximum Rate calculated as of the first Business Day of such Interest Period.

The rate per annum at which interest is payable on any series of Tax-Exempt ARCs for any Interest Period is herein referred to as the “Applicable ARCs Rate.” There will be separate Applicable ARCs Rates for the Bonds of each series of Tax-Exempt ARCs. Notwithstanding anything herein to the contrary, the Applicable ARCs Rate cannot exceed the Maximum Rate.

Notwithstanding anything herein to the contrary, if any Tax-Exempt ARC or portion thereof has been selected for redemption during the next succeeding Interest Period, such Tax-Exempt ARC or portion thereof will not be included in the Auction preceding such Redemption Date, and will continue to bear interest until the Redemption Date at the rate established for the Interest Period prior to said Auction.

### **Auction Participants**

**Existing Owners and Potential Owners.** Participants in each Auction will include (a) “Existing Owners,” which shall mean (i) with respect to and for the purpose of dealing with the Auction Agent in connection with an Auction, any Person who is a Broker-Dealer listed in the existing owner registry prior to the conversion to a Variable or Fixed Rate at the close of business on the Business Day preceding the Auction Date for such Auction, and (ii) with respect to and for the purpose of dealing with the Broker-Dealer in connection with an Auction, a Person who is a beneficial owner of Tax-Exempt ARCs; and (b) “Potential Owner,” which shall mean any Person (including any Existing Owner that is (i) a Broker-Dealer when dealing with an Auction Agent and (ii) a potential beneficial owner when dealing with a Broker-Dealer), who may be interested in acquiring Tax-Exempt ARCs (or in the case of an Existing Owner, an additional principal amount of Tax-Exempt ARCs).

By purchasing Tax-Exempt ARCs, whether in an Auction or otherwise, each prospective purchaser of Tax-Exempt ARCs or its Broker-Dealer must agree and will be deemed to have agreed: (a) to participate in Auctions on the terms set forth in Appendix F hereto, (b) so long as the beneficial ownership of the Tax-Exempt ARCs is maintained in book-entry form by DTC, to sell, transfer or otherwise dispose of Tax-Exempt ARCs only pursuant to a Bid or a Sell Order (each as defined in Appendix F) in an Auction, or to or through a Broker-Dealer, provided that in the case of all transfers other than those pursuant to an Auction, the Existing Owner of Tax-Exempt ARCs so transferred, its agent member or its Broker-Dealer advises the Auction Agent of such transfer, and (c) to have its beneficial ownership of Tax-Exempt ARCs maintained at all times in book-entry form by the Securities Depository for the account of its Participant of DTC, which in turn will maintain records of such beneficial ownership, and to authorize such Participant to disclose to the Auction Agent such information with respect to such beneficial ownership as the Auction Agent may request.

**Auction Agent.** Deutsche Bank Trust Company Americas has been appointed as the initial Auction Agent for the Series 2005 Tax-Exempt Bonds Outstanding as Tax-Exempt ARCs. The Trustee is directed in the Indenture to enter into the initial Auction Agency Agreement with Deutsche Bank Trust Company Americas for each such series of Series 2005 Tax-Exempt Bonds. Any substitute Auction Agent shall be (a) a bank or trust company duly organized under laws of the United States of America or any state or territory thereof having its principal place of business in the Borough of Manhattan, the City of New York, and having a combined capital stock, surplus and undivided profits of at least \$40,000,000 or (b) a member of the National Association of Securities Dealers, Inc., having a capitalization of at least \$40,000,000 and, in either case, authorized by law to perform all the duties imposed upon it under the Indenture and under the Auction Agency Agreement. The Auction Agent may resign and be discharged of the duties and obligations created by the Indenture and the Auction Agency Agreement by giving at least 90 days’ written notice to the Corporation, the Trustee and the Market Agent (30 days’ written notice if the Auction Agent has not been paid its fee for more than 30 days). The Auction Agent may be removed at any time by the Trustee, if the Auction Agent is an entity other than the Trustee, acting at the direction of either (a) the Corporation or (b) the Owners of 66-2/3% of the aggregate principal amount of the Tax-Exempt ARCs of the series of Series 2005 Tax-Exempt Bonds for which the Auction Agent is being removed by an instrument signed by the

Trustee and filed with the Auction Agent, the Corporation and the Market Agent upon at least 90 days' notice; provided that, if required by the Market Agent, an agreement in substantially the form of the Auction Agency Agreement shall be entered into with a successor Auction Agent. If the Auction Agent and the Trustee are the same entity, the Auction Agent may be removed as described above, with the Corporation acting in lieu of the Trustee.

If the Auction Agent shall resign or be removed or dissolved, or if the property or affairs of the Auction Agent shall be taken under the control of any state or federal court or administrative body because of bankruptcy or insolvency, or for any other reason, the Corporation shall use its best efforts to appoint a successor as Auction Agent, and the Trustee shall thereupon enter into an Auction Agency Agreement with such successor.

The Auction Agent is acting as agent for the Trustee and the Corporation in connection with Auctions provided that the Trustee shall not be responsible for any misconduct or negligence of the Auction Agent. In the absence of bad faith or negligence on its part, the Auction Agent shall not be liable for any action taken, suffered or omitted or for any error of judgment made by it in the performance of its duties under the Auction Agency Agreement and shall not be liable for any error of judgment made in good faith unless the Auction Agent shall have been negligent in ascertaining (or failing to ascertain) the pertinent facts.

**Broker-Dealer.** Existing Owners and Potential Owners may participate in Auctions only by submitting orders (in the manner described below) through a "Broker-Dealer," including UBS Financial Services Inc. as the initial Broker-Dealer with respect to the Series 2005 Tax-Exempt Bonds, or any other broker or dealer (each as defined in the Securities Exchange Act of 1934, as amended), commercial bank or other entity permitted by law to perform the functions required of a Broker-Dealer set forth below which (a) is a "Participant" (*i.e.*, a member of, or participant in, DTC or any successor securities depository) or an affiliate of a Participant, (b) has been selected by the Corporation with the approval of the Market Agent, and (c) has entered into a Broker-Dealer Agreement with the Auction Agent that remains effective, in which the Broker-Dealer agrees to participate in Auctions as described in the Auction Procedures, as from time to time amended or supplemented.

The Broker-Dealer Agreement will provide that a Broker-Dealer may submit an order in Auctions for its own account. If a Broker-Dealer submits an order for its own account in any Auction, it might have an advantage over other bidders in that it would have knowledge of orders placed through it in that Auction; such Broker-Dealer, however, would not have knowledge of orders submitted by other Broker-Dealers (if any) in that Auction. As a result of bidding by a Broker-Dealer in an Auction, the Auction Rate may be lower than the rate that would have prevailed had the Broker-Dealer not bid. A Broker-Dealer may also bid in an Auction in order to prevent what would otherwise be (a) a failed Auction, (b) an "all-hold" Auction, or (c) the implementation of an Auction Rate that the Broker-Dealer believes, in its sole judgment, does not reflect the market for such securities at the time of the Auction. In the Broker-Dealer Agreement, all Broker-Dealers will agree to handle customer orders in accordance with their respective duties under applicable securities laws and rules.

According to published news reports, the Securities and Exchange Commission (the "Commission") has requested information from a number of broker-dealers regarding certain of their practices in connection with auction rate securities, such as the practices described in the preceding paragraph. The Broker-Dealer has advised the Corporation that it, as a participant in the auction rate securities markets, has received a letter from the Commission requesting that it voluntarily conduct an investigation regarding certain of its practices and procedures in connection with those markets. The Broker-Dealer is cooperating with the Commission in providing the requested information. No assurance can be given as to whether the results of this process will affect the market for the Bonds or the auctions therefor.

**Market Agent.** The "Market Agent," initially UBS Financial Services Inc., acting pursuant to a Market Agent Agreement with the Trustee at the direction of the Corporation, and in connection with the Tax-Exempt ARCs, shall act solely as agent of the Trustee and shall not assume any obligation or relationship of agency or trust for or with any of the beneficial owners. The Market Agent is designated by the Corporation, and the Trustee shall not be responsible for any misconduct or negligence of the Market Agent.

## **Tax-Exempt ARC Auctions**

Prior to a Fixed Rate Conversion Date or a Variable Rate Conversion Date, Auctions to establish the Applicable ARCs Rate for each series of Tax-Exempt ARCs are to be held on each Auction Date, except as described above under “Interest -- *Applicable ARCs Rate*,” by application of the Auction Procedures described in Appendix F hereto. “Auction Date” shall mean initially, for the Series 2005A-1 Bonds and the Series 2005B-1 Bonds, October 11, 2005, and thereafter the Business Day immediately preceding the first day of each Interest Period, other than in all cases (a) each Interest Period commencing after the date when ownership of the Tax-Exempt ARCs of the applicable series is no longer maintained in book-entry form by DTC; (b) each Interest Period commencing after the occurrence and during the continuance of a Payment Default; or (c) any Interest Period commencing less than the Applicable Number of Business Days after the cure or waiver of a Payment Default. Notwithstanding the foregoing, the Auction Date for one of more Auction Periods may be changed as described below under “Changes in the Tax-Exempt ARC Auction Periods or Tax-Exempt ARC Auction Date -- Changes in the Tax-Exempt ARC Auction Date.”

The Auction Agent shall determine the Maximum Rate, the Maximum Interest Rate and the Maximum Auction Rate on each Auction Date and each BMA Weekly Reset Date and the All-Hold Rate on each Auction Date (other than Auction Dates with respect to Interest Periods during which Tax-Exempt ARCs are to be in the BMA Auction Mode). Upon receipt of notice from the Trustee of a failed Fixed Rate Conversion or Variable Rate Conversion as described below under “Inadequate Funds for Tender of Tax-Exempt ARCs; Failed Conversion of Tax-Exempt ARCs,” or a failed conversion to a BMA Auction Mode as described below under “Changes in Tax-Exempt ARC Auction Periods or Tax-Exempt Auction Dates – Changes to and from BMA Auction Mode,” and if the next succeeding Auction Date shall be two or fewer Business Days after (or on) the failed Fixed Rate Conversion Date or Variable Rate Conversion Date or date proposed for conversion to a BMA Auction Mode, the Auction Agent shall not hold an Auction on such Auction Date but shall calculate the Maximum Rate as of the first Business Day of the next succeeding Interest Period and give notice thereof as provided, and to the parties specified in, the Auction Agency Agreement. If the ownership of the Tax-Exempt ARCs of the applicable series is no longer maintained in book-entry form by DTC, the Trustee shall calculate the Maximum Rate on the Business Day immediately preceding the first day of each Interest Period (or, in the case of Tax-Exempt ARCs in the BMA Auction Mode, each BMA Weekly Period) commencing after delivery of certificates representing the Tax-Exempt ARCs. If a Payment Default shall have occurred, the Trustee shall calculate the Default Rate on the first day of (a) each Interest Period (or, in the case of Tax-Exempt ARCs in the BMA Auction Mode, each BMA Weekly Period) commencing after the occurrence and during the continuance of such Payment Default and (b) any Interest Period (or, in the case of Tax-Exempt ARCs in the BMA Auction Mode, each BMA Weekly Period) commencing less than two Business Days after the cure of any Payment Default. The Auction Agent shall determine the “AA” Financial Commercial Paper Rate for each Interest Period other than the Initial Interest Period; provided, that if the ownership of the Tax-Exempt ARCs is no longer maintained in book-entry form, or if a Payment Default has occurred, then the Trustee shall determine the “AA” Financial Commercial Paper Rate for each such Interest Period (or, in the case of Tax-Exempt ARCs in the BMA Auction Mode, each BMA Weekly Period). The determination by the Trustee or the Auction Agent, as the case may be, of the “AA” Financial Commercial Paper Rate shall (in the absence of manifest error) be final and binding upon the Owners and all other parties. If calculated or determined by the Auction Agent, the Auction Agent shall promptly advise the Trustee of the “AA” Financial Commercial Paper Rate.

So long as the ownership of the Tax-Exempt ARCs is maintained in book-entry form by DTC, an Existing Owner may sell, transfer or otherwise dispose of Tax-Exempt ARCs only pursuant to a Bid or Sell Order (as defined in Appendix F hereto) placed in an Auction or through a Broker-Dealer, provided that, in the case of all transfers other than pursuant to Auctions or mandatory tenders, such Existing Owner, its Broker-Dealer or its Participant advises the Auction Agent of such transfer. Prior to a Fixed Rate Conversion Date or a Variable Rate Conversion Date, Auctions shall be conducted on each Auction Date, if there is an Auction Agent on such Auction Date, in the manner described in Appendix F hereto. A description of the Settlement Procedures to be used with respect to Auctions is contained in Appendix G hereto.

## **Adjustment in Percentages Pertaining to Tax-Exempt ARCs**

The Market Agent shall adjust the percentage used in determining the All-Hold Rate, the Applicable Percentage used in determining the Maximum Rate and the Applicable Percentage of the S&P Weekly High Grade

Index used in determining the Default Rate, if any such adjustment is necessary, in the judgment of the Market Agent, to reflect any Change of Preference Law such that Tax-Exempt ARCs paying the Maximum Rate, Tax-Exempt ARCs paying the All-Hold Rate and Tax-Exempt ARCs paying the Default Rate shall respectively have equal market values before and after such Change of Preference Law. Prior to any such adjustment, the Corporation shall give notice thereof to the Rating Agencies, and no such adjustment shall be made unless such adjustment will not adversely affect the rating on any of the Bonds. In making any such adjustment, the Market Agent shall take the following factors, as in existence both before and after such Change of Preference Law, into account: (a) short-term taxable and tax-exempt market rates and indices of such short-term rates; (b) the market supply and demand for short-term tax-exempt securities; (c) yield curves for short-term and long-term tax-exempt securities or obligations having a credit rating that is comparable to that of the Tax-Exempt ARCs; (d) general economic conditions; and (e) economic and financial factors present in the securities industry that may affect or that may be relevant to the Tax-Exempt ARCs.

The Market Agent shall effectuate an adjustment in the percentage used in determining the All-Hold Rate, the Applicable Percentage used in determining the Maximum Rate and the percentage of the S&P Weekly High Grade Index used to determine the Default Rate by delivering written notice to the Corporation, the Trustee and the Auction Agent at least 10 days prior to the Auction Date on which the Market Agent desires to effect such change.

**Changes in Tax-Exempt ARC Auction Periods or Tax-Exempt ARC Auction Date and Changes to and from BMA Auction Mode**

*Changes in Tax-Exempt ARC Auction Period or Periods.* While any of the Series 2005 Tax-Exempt Bonds are Outstanding as Tax-Exempt ARCs, the Market Agent (with the consent of the Corporation and the Broker-Dealer) may change, upon meeting certain conditions, the length of one or more Auction Periods. In connection with any such change, or otherwise, the Market Agent may change Interest Payment Dates; any such change shall be considered a “change in the length of one or more Auction Periods” for purposes of the Indenture. Any change in Interest Payment Dates requires the consent of the Corporation and the Broker-Dealer and must be made for the purpose of conforming to current market practice with respect to certain securities.

Except with respect to a change to a BMA Auction Mode, the change in the length of one or more Auction Periods shall not be allowed unless Sufficient Clearing Bids (as defined in Appendix F hereto) existed at both the Auction before the date on which the notice of the proposed change was given and the Auction immediately preceding the proposed change. Such change shall take effect only if certain requirements are met as described in the Indenture.

*Changes in the Tax-Exempt ARC Auction Date.* While any of the Series 2005 Tax-Exempt Bonds are Outstanding as Tax-Exempt ARCs, the Market Agent:

- (a) in order to conform with then-current market practice with respect to similar securities, shall, and
- (b) in order to accommodate economic and financial factors that may affect or be relevant to the day of the week constituting an Auction Date and the interest rate borne on the Tax-Exempt ARCs and upon receipt of a favorable opinion and with the written consent of an Authorized Officer of the Corporation and the Broker-Dealer, may,

specify an earlier Auction Date (but in no event more than five Business Days earlier) than the Auction Date that would otherwise be determined in accordance with the definition of “Auction Date” with respect to one or more specified Auction Periods. The Authorized Officer of the Corporation shall not consent to such change in the Auction Date, if such consent is required as described above, unless he or she shall have received from the Market Agent not less than three days nor more than 45 days prior to the effective date of such change a written request for consent together with a certificate demonstrating the need for change in reliance on such factors. The Market Agent shall provide notice of any determination to specify an earlier Auction Date for one or more Auction Periods by means of a written notice delivered at least 10 days prior to the proposed changed Auction Date to the Trustee, the Auction Agent, the Broker-Dealer, the Corporation and DTC.

***Changes to and from BMA Auction Mode and During Auction Mode.***

- (a) While any of the Series 2005 Tax-Exempt Bonds are outstanding as Tax-Exempt ARCs, the Market Agent may (with the consent of the Corporation and the Broker-Dealer) change the interest rate on the ARCs to a BMA Auction Mode or if already in a BMA Auction Mode may continue the BMA Auction Mode for an Interest Period of the same duration. The Authorized Officer of the Corporation shall not consent to a change to a BMA Auction Mode or such continuation of the same Interest Period within a BMA Auction Mode unless he or she shall have received from the Market Agent not less than three days nor more than 45 days prior to the effective date of such change a written request for consent. The Market Agent shall initiate the change to a BMA Auction Mode or continuation of the same Interest Period within the BMA Auction Mode by giving (A) notice to the Auction Agent at least three days prior to the first Auction Date for the change to a BMA Auction Mode or continuation of the same Interest Period within the BMA Auction Mode, and (B) written notice to the Trustee, the Broker-Dealer, the Corporation and DTC.
- (b) In conjunction with a change to a BMA Auction Mode, the length of the Auction Period may be changed as described under "Changes in Tax-Exempt ARC Auction Period or Periods" above.
- (c) While in a BMA Auction Mode, the length of the next Auction Period may be (A) adjusted as described under "Changes in Tax-Exempt ARC Auction Period or Periods" above except that no such Auction Period change shall occur unless Sufficient Clearing Bids existed at the Auction held on the day immediately prior to the effective date of the new Auction Period, and if Sufficient Clearing Bids do not exist at such Auction, then the Auction Period shall automatically be converted to a 35-day Auction Period and a non-BMA Auction Mode, or (B) continued as an Auction Period of the same length, but no such subsequent Auction Period of the same length shall occur unless Sufficient Clearing Bids existed at the Auction held on the day immediately prior to the effective date of the continuation of the same length of Auction Period and if Sufficient Clearing Bids do not exist at such Auction, then the Auction Period shall automatically be converted to a 35-day Auction Period and a non-BMA Auction Mode; and in the case of conversion to a 35-day Auction Period in the case of either (A) or (B), the interest rate shall be the Maximum Rate until the next succeeding Auction Date.
- (d) If the ARCs in a BMA Auction Period are not continued in the BMA Auction Mode for another Interest Period of the same length as provided in (a) above or for an Interest Period in the BMA Auction Mode of a different length as provided in (b) above, then the length of the next Auction Period shall automatically be 35 days in a non-BMA Auction Mode and the Auction shall be conducted in accordance with the non-BMA Auction Mode Auction Procedures.

In connection with any change in the Auction terms described above, the Auction Agent shall provide such further notice to such parties as is specified in the Auction Agency Agreement.

No change shall be made to the Auction Period or Auction Date (other than conversion to or from a BMA Auction Mode and changes in the length of the Auction Period during a BMA Auction Mode) unless the Corporation and the Trustee shall have received a Rating Confirmation from each Rating Agency then rating the Tax-Exempt ARCs or any Bonds outstanding under the Indenture.

Any change to a 35-day Auction Period may, for the first such period, be a period of plus or minus any number of days necessary to give effect to non-Business Days or the day of a week on which Auctions are to be held.

### **Fixed Rate Conversion of Tax-Exempt ARCs**

All, but not less than all, of any series of Tax-Exempt ARCs may be converted to bear interest at a Fixed Rate to their final maturity at the option of the Corporation and upon the delivery by the Corporation to the Trustee of a Favorable Opinion. If a series of Tax-Exempt ARCs is to be converted to bear interest at a Fixed Rate, a Fixed Rate Conversion Date for the Tax-Exempt ARCs of such series shall be specified.

Not later than the 15th day preceding the Fixed Rate Conversion Date, notice of the conversion shall be given by the Trustee to the Auction Agent and the Registered Owners of all such Tax-Exempt ARCs, and the Series 2005 Tax-Exempt Bonds being converted will be subject to mandatory tender as described below under “--Mandatory Tender of Tax-Exempt ARCs upon Conversion To a Fixed Rate or Variable Rate; Certain Notices.”

No such conversion shall occur unless the Corporation has received a Rating Confirmation with respect to the rating on any of the Bonds (other than the Series 2005 Tax-Exempt Bonds being converted). In the event that the Corporation determines that the conversion to a Fixed Rate will not occur on a scheduled Fixed Rate Conversion Date, the Market Agent may schedule a new Auction Date for the series of Tax-Exempt ARCs as to which the conversion was to take place as provided in the Indenture.

### **Variable Rate Conversion of Tax-Exempt ARCs**

All, but not less than all, of any series of Tax-Exempt ARCs may be converted to bear interest at a Variable Rate at the option of the Corporation and upon the delivery by the Corporation to the Trustee of a Favorable Opinion. If a series of Tax-Exempt ARCs is to be converted to bear interest at a Variable Rate, a Variable Rate Conversion Date for the Tax-Exempt ARCs of such series shall be specified.

Not later than the 15th day preceding the Variable Rate Conversion Date, notice of the conversion shall be given by the Trustee to the Auction Agent and the Registered Owners of all such Tax-Exempt ARCs, and the Series 2005 Tax-Exempt Bonds being converted will be subject to mandatory tender as described below under “--Mandatory Tender of Tax-Exempt ARCs upon Conversion To a Fixed Rate or Variable Rate, Certain Notices.”

No such conversion shall occur unless the Corporation has received a Rating Confirmation with respect to the rating on any of the Bonds (other than the Series 2005 Tax-Exempt Bonds being converted). In the event that the Corporation determines that the conversion to a Variable Rate will not occur on a scheduled Variable Rate Conversion Date, the Market Agent may schedule a new Auction Date for the series of Tax-Exempt ARCs as to which the conversion was to take place as provided in the Indenture.

### **Mandatory Tender of Tax-Exempt ARCs Upon Conversion To a Fixed Rate or Variable Rate; Certain Notices**

***Mandatory Tender Upon Conversion.*** Any series of Tax-Exempt ARCs to be converted to bear interest at a Fixed Rate or a Variable Rate, as the case may be, shall be subject to mandatory tender for purchase without right of retention on the Fixed Rate Conversion Date or Variable Rate Conversion Date, as the case may be (such date herein referred to as a “Rate Conversion Date”), at a price equal to the principal amount thereof plus accrued interest, if any, to such Rate Conversion Date.

***Notice to Owners.*** Any notice of conversion given to Owners as described above under “Fixed Rate Conversion of Tax-Exempt ARCs” or “Variable Rate Conversion of Tax-Exempt ARCs,” as applicable, shall, in addition to the requirements described therein, specify that the Outstanding series of Series 2005 Tax-Exempt Bonds subject to such conversion are subject to mandatory tender pursuant to the provisions thereof and of the Indenture and will be purchased on the Rate Conversion Date by payment of a purchase price equal to the principal amount thereof plus accrued interest, if any, to such Rate Conversion Date.

***Payment of Purchase Price by Trustee.*** On any Rate Conversion Date, the Trustee shall pay the Purchase Price of the series of Series 2005 Tax-Exempt Bonds required to be tendered for purchase, upon surrender and proper endorsement for transfer in blank with all signatures guaranteed, to the Owners thereof on or before 3:00 p.m.

(New York time). Such payments shall be made in immediately available funds, but solely from moneys representing proceeds of the remarketing of the Series 2005 Tax-Exempt Bonds, to any Person other than the Corporation, and neither the Corporation, the Trustee nor the Remarketing Agent shall have any obligation to use funds from any other source.

***Delivery of Bonds; Effect of Failure to Surrender Bonds.*** All Bonds of a series of Series 2005 Tax-Exempt Bonds to be purchased on any Rate Conversion Date shall be required to be delivered to the designated office of the Trustee or its designated agent for such purpose, at or before 12:00 Noon (New York time) on such date. If the Owner of any Series 2005 Tax-Exempt Bond that is subject to purchase as described herein fails to deliver such 2005 Tax-Exempt Bond to the Trustee or its designated agent for such purpose, for purchase on the Purchase Date, and if the Trustee or its designated agent for such purpose is in receipt of the purchase price thereof, such 2005 Tax-Exempt Bond shall nevertheless be deemed tendered and purchased on the Rate Conversion Date and shall be deemed an Undelivered Bond as described below under “Undelivered Tax-Exempt ARCs” and registration of the ownership of such Series 2005 Tax-Exempt Bond shall be transferred to the purchaser thereof as described below under “Undelivered Tax-Exempt ARCs.”

#### **Inadequate Funds for Tenders of Tax-Exempt ARCs; Failed Conversion of Tax-Exempt ARCs**

If the funds available for purchase of a series of Series 2005 Tax-Exempt Bonds are inadequate for the purchase of all Series 2005 Tax-Exempt Bonds of such series required to be tendered on any Rate Conversion Date, or if a proposed conversion to a Fixed Rate or Variable Rate, as the case may be, otherwise fails, the Trustee shall return all tendered Series 2005 Tax-Exempt Bonds to the Owners thereof. After any such failed conversion, the Series 2005 Tax-Exempt Bonds subject to the failed conversion shall remain Outstanding as Tax-Exempt ARCs. Auctions shall be conducted beginning on the first Auction Date occurring more than two Business Days after the failed Rate Conversion Date, and interest payable thereon shall be determined and paid according to the Indenture.

#### **No Tender Purchases of Tax-Exempt ARCs on Redemption Date**

Series 2005 Tax-Exempt Bonds (or portions thereof) called for redemption shall not be subject to tender and purchase on the redemption date thereof.

#### **Undelivered Tax-Exempt ARCs**

Any Tax-Exempt ARCs which are required to be tendered on a Rate Conversion Date and that are not delivered on such date, and for the payment of which there has been irrevocably held in trust in a segregated subaccount for the benefit of such Owner an amount of money sufficient to pay the Purchase Price, including any accrued interest due to (but not after) such Purchase Date with respect to such Bonds, shall be deemed to have been purchased, and shall be Undelivered Bonds. The Owners of such Undelivered Bonds shall not be entitled to any payment other than the Purchase Price due on the Purchase Date and shall no longer accrue interest or be entitled to the benefits of the Indenture.

### **TAXABLE AUCTION RATE CERTIFICATES**

#### **General**

The Series 2005A-2 Bonds, the Series 2005A-3 Bonds, the Series 2005A-4 Bonds, the Series 2005A-5 Bonds, the Series 2005A-6 Bonds and the Series 2005A-7 Bonds (collectively, the “Series 2005 Taxable Bonds”) will initially be issued as Taxable Auction Rate Certificates (referred to as “Taxable ARCs”), shall be dated the respective dates of initial delivery thereof and shall mature on June 1, 2035. Certain capitalized terms used herein with respect to the Taxable ARCs are defined in Appendix H to this Official Statement.



## Interest

**Interest Payments.** Interest on the Taxable ARCs shall accrue for each Interest Period and shall be payable in arrears, on each succeeding Interest Payment Date. Initially, the term “Interest Payment Date” means October 5, 2005, with respect to the Series 2005A-2 Bonds and the Series 2005A-3 Bonds, the dates set forth in the Additional Series 2005 Supplemental Indentures executed and delivered in connection with the issuance of the Series 2005A-4 Bonds, the Series 2005A-5 Bonds, the Series 2005A-6 Bonds and the Series 2005A-7 Bonds (collectively, the “2005 Additional Bonds”), and thereafter the Business Day following the last day of each Interest Period, provided, however, that if the duration of the Interest Period is one year or longer, then the Interest Payment Date therefor shall be each June 1 and December 1 (or if any such date is not a Business Day, then the next succeeding Business Day) during such Interest Period and the Business Day following the last day of such Interest Period; and shall also mean the maturity date of the Taxable ARCs, or if such maturity date is not a Business Day, the next succeeding Business Day (but only for interest accrued through the last day of the Interest Period next preceding such Interest Payment Date). Interest Payment Dates may change in the event of a change in the length of one or more Auction Periods or in certain other events. See “Changes in Taxable ARC Auction Periods or Auction Date -- Changes in Taxable ARC Auction Period or Periods” below. An Interest Period means (a) (i) with respect to the Series 2005A-2 Bonds and the Series 2005A-3 Bonds, the period commencing on the date of delivery of the Series 2005A-2 Bonds and the Series 2005A-3 Bonds through and including October 4, 2005, and each successive period of generally 28 days thereafter, commencing on a Wednesday (or the Business Day following the last day of the prior Interest Period, if the prior Interest Period does not end on a Tuesday) and ending on (and including) a Tuesday (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day that is followed by a Business Day), and (ii) with respect to each series of the 2005 Additional Bonds, the period commencing on the date of delivery of such series of 2005 Additional Bonds through and including the date set forth in the Additional Series 2005 Supplemental Indenture executed and delivered in connection with the issuance of such series of the 2005 Additional Bonds, and each successive period of generally 28 days thereafter, respectively, as further described in such Additional Series 2005 Supplemental Indenture, and (b) if changed as described below under “Changes in Taxable ARC Auction Periods or Auction Date -- Changes in Taxable ARC Auction Period or Periods,” each period commencing on an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date.

The amount of interest distributable to holders of Taxable ARCs in respect of each \$50,000 in principal amount thereof for any Interest Period or part thereof shall be calculated by the Trustee by applying the Applicable ARCs Rate for such Interest Period or part thereof, to the principal amount of \$50,000, multiplying such product by the actual number of days in the Interest Period or part thereof, divided by 365 or 366, as applicable, and truncating the resultant figure to the nearest cent. Interest on the Taxable ARCs shall be computed by the Trustee on the basis of a 365-day year for the number of days actually elapsed; except that, for any such calculation with respect to an Interest Payment Date occurring after January 1 of any year preceding a leap year through December 31 of such year (being the leap year), such interest (for any day occurring during such period) shall be computed on the basis of a 366-day year period. The Trustee shall make the calculation described above not later than the close of business on each Auction Date.

Interest payments on the Taxable ARCs are to be made by the Trustee to DTC as the Registered Owner of the Taxable ARCs, as of the Record Date preceding each Interest Payment Date. Initially, the Taxable ARCs are to be registered in the name of Cede & Co., as nominee of DTC, which is acting as the Depository for the Taxable ARCs. See “BOOK-ENTRY SYSTEM” above for a description of how DTC, as Registered Owner, is expected to disburse such payments to the Beneficial Owners.

**Applicable ARCs Rate.** The rate of interest on the Taxable ARCs for each Interest Period subsequent to the first Interest Period shall be equal to the annual rate of interest that results from implementation of the Auction Procedures described in Appendix H hereto (the “Auction Rate”) unless the Auction Rate exceeds the Maximum Rate, in which case, the rate of interest on the Taxable ARCs for such Interest Period shall be the Maximum Rate, or unless the Maximum Rate shall actually be lower than the All-Hold Rate, in which case, the rate of interest on the Taxable ARCs for such Interest Period shall be the Maximum Rate; provided that if, on any Auction Date, an Auction is not held for any reason, then the rate of interest for the next succeeding Interest Period shall equal the Maximum Rate on such Auction Date; provided further, however, that if an Auction is scheduled to occur for the next Interest Period on a date that was reasonably expected to be a Business Day, but such Auction does not occur



because such date is later not considered to be a Business Day, the Auction shall nevertheless be deemed to have occurred, and the applicable Auction Rate in effect for the next Interest Period will be the Auction Rate in effect for the preceding Interest Period and such Interest Period will generally be 28 days in duration, beginning on the calendar day following the date of the deemed Auction and ending on (and including) the applicable Auction Date (unless such date is not followed by a Business Day, in which case on the next succeeding day that is followed by a Business Day). If the preceding Interest Period was other than generally 28 days in duration, the Auction Rate for the deemed Auction will instead be the rate of interest determined by the Market Agent on equivalently rated auction securities with a comparable length of auction period. Notwithstanding the foregoing, (a) if the ownership of the Taxable ARCs is no longer maintained in book-entry form by DTC, Auctions will be suspended and the rate of interest on the Taxable ARCs for any Interest Period commencing after the delivery of certificates representing Taxable ARCs as described above shall equal the Maximum Rate on the Business Day immediately preceding the first day of such Interest Period; or (b) if a Payment Default occurs, Auctions will be suspended and the Applicable ARCs Rate (as defined below) for the Interest Period commencing on or after such Payment Default and for each Interest Period thereafter to and including the Interest Period, if any, during which, or commencing less than two Business Days after, such Payment Default is cured will equal the Non-Payment Rate.

The rate per annum at which interest is payable on the Taxable ARCs for any Interest Period is herein referred to as the "Applicable ARCs Rate." Notwithstanding anything herein to the contrary, the Applicable ARCs Rate cannot exceed the Maximum Rate unless the Applicable ARCs Rate is the Non-Payment Rate, in which case the Non-Payment Rate may exceed the Maximum Auction Rate but cannot exceed the Maximum Interest Rate.

Notwithstanding anything herein to the contrary, if any Taxable ARC or portion thereof has been selected to be redeemed during the next succeeding Interest Period, such Taxable ARC or portion thereof, will not be included in the Auction preceding such Redemption Date, and said Taxable ARC or portion thereof will continue to bear interest until the Redemption Date at the rate established for the Interest Period prior to said Auction.

***Carry-over Amounts.*** If the Auction Rate for the Taxable ARCs is greater than the Maximum Rate, then the interest rate applicable for that Auction Period will be the Maximum Rate. The excess of the amount of interest that would have accrued on the Taxable ARCs at the lesser of the Auction Rate or the Maximum Interest Rate over the amount of interest actually accrued at the Maximum Rate will accrue and be designated as the Carry-over Amount. The Carry-over Amount will bear simple interest calculated at a rate equal to One-Month LIBOR (as determined by the Auction Agent, provided the Trustee has received notice of One-Month LIBOR from the Auction Agent, and if the Trustee has not, then as determined by the Trustee) from the Interest Payment Date for the Auction Period with respect to which such Carry-over Amount was calculated, until paid. Any payment in respect of any Carry-over Amount shall be applied, first, to any accrued interest payable thereon and thereafter in reduction of such Carry-over Amount. As used in the Indenture, the terms "principal" and "interest" do not include within the meanings of such terms the Carry-over Amount or any interest accrued on any Carry-over Amount. The Carry-over Amount will be calculated for each Taxable ARC by the Auction Agent during the Auction Period in sufficient time for the Trustee to give notice to each Owner of a Taxable ARC of such Carry-over Amount as described in the following sentence. On the Interest Payment Date for an Auction Period during which a Carry-over Amount has accrued, the Trustee will give written notice to each Owner of a Taxable ARC on which a Carry-over Amount has accrued of such Carry-over Amount, which written notice may accompany the payment of interest by check made to each such Owner on such Interest Payment Date, or otherwise will be mailed on such Interest Payment Date by first-class mail, postage prepaid, to each such Owner at such Owner's address as it appears on the books of registry maintained by the Trustee. Such notice will state, in addition to such Carry-over Amount, that, unless and until such Taxable ARC has been redeemed or has been deemed no longer Outstanding under the Indenture (after which all accrued Carry-over Amount (and all accrued interest thereon) that remains unpaid will be extinguished and no Carry-over Amount (or interest accrued thereon) will be paid with respect to such Taxable ARC), (i) the Carry-over Amount (and interest accrued thereon, calculated at a rate equal to One-Month LIBOR) will be paid by the Trustee in part or in whole, on the next occurring Interest Payment Date for such Taxable ARC, and on each succeeding Interest Payment Date until paid, for each Auction Period subsequent to the Auction Period in which such Carry-over Amount accrued but solely (a) to the extent that during such subsequent Auction Period, no additional Carry-over Amount is accruing on such Taxable ARC, and if paid, such Carry-over Amount is paid solely to the extent that during such Auction Period the amount of interest that would be payable on such Taxable ARC at the Maximum Rate exceeds the amount of interest that would otherwise be payable on such Taxable ARC at the interest rate in effect for such Auction Period and (b) money is available pursuant to the terms of the Indenture on any such Interest

Payment Date in an amount sufficient to pay all or a portion of the amount of such excess calculated pursuant to the preceding clause (a), and (ii) interest will accrue on the Carry-over Amount at a rate equal to One-Month LIBOR until such Carry-over Amount is paid in full or is cancelled. The right to receive the Carry-over Amount payable with respect to any Taxable ARC may not be assigned or transferred apart from such Taxable ARC, and the Carry-over Amount due on any Interest Payment Date with respect to any Taxable ARC shall be payable solely to the Registered Owner of such Taxable ARC on the applicable Record Date for such Interest Payment Date.

The Carry-over Amount for any Taxable ARC will be paid by the Trustee to the then Registered Owner of the Outstanding Taxable ARCs on the next occurring Interest Payment Date, and each succeeding Interest Payment Date to the then Registered Owner until paid, for a subsequent Auction Period if and to the extent that (i) during such subsequent Auction Period, no additional Carry-over Amount is accruing on the Taxable ARCs, (ii) and if paid, such Carry-over Amount is payable solely to the extent that during such Auction Period, the amount of interest that would be payable on such Taxable ARCs at the Maximum Rate exceeds the amount of interest that is payable for such Auction Period at the interest rate in effect for such Auction Period, (iii) on such Interest Payment Date, first, there are sufficient moneys in the Revenue Fund to pay all interest due on the Bonds on such Interest Payment Date and second, there are sufficient moneys in the Revenue Fund to pay a portion or all of the Carry-over Amount described in clause (ii) above, after giving effect to the transfers described in the Indenture and (iv) the Aggregate Market Value of the Trust Estate as of such Interest Payment Date is equal to at least 101% of the unpaid principal amount of all Obligations Outstanding. Any Carry-over Amount (and any interest accrued thereon) on any Taxable ARC which is due and payable on an Interest Payment Date, which Taxable ARC is to be redeemed or deemed no longer Outstanding under the Indenture on said Interest Payment Date, will be paid to the Owner thereof on said Interest Payment Date to the extent that moneys are available therefor in accordance with the provisions of the Indenture; provided, however, that any Carry-over Amount (and any interest accrued thereon) which is not yet due and payable on said Interest Payment Date will be cancelled with respect to each Taxable ARC that is to be redeemed or deemed no longer Outstanding under the Indenture on such Interest Payment Date and will not be paid on any succeeding Interest Payment Date. To the extent that any portion of the Carry-over Amount remains unpaid after payment of a portion thereof, such unpaid portion of the Carry-over Amount will be paid in whole or in part until fully paid by the Trustee on the next occurring Interest Payment Date or Dates, as necessary for a subsequent Auction Period or Periods, if and to the extent that the conditions in the third preceding sentence are satisfied. On any Interest Payment Date on which the Trustee pays only a portion of the Carry-over Amount on a Taxable ARC, the Trustee will give written notice in the manner set forth in the preceding paragraph above to the Owner of such Taxable ARC receiving such partial payment of the Carry-over Amount remaining unpaid on such Taxable ARC.

Whether the Carry-over Amount for the Taxable ARCs will be paid on any particular Interest Payment Date in each subsequent Auction Period will be determined as described above and the Trustee will make payment of the Carry-over Amount in the same manner as, and from the same subaccount from which, it pays interest on the Taxable ARCs on any Interest Payment Date.

ANY UNPAID CARRY-OVER AMOUNT ON A TAXABLE ARC NOT DUE AND PAYABLE ON THE REDEMPTION DATE WITH RESPECT TO SUCH TAXABLE ARC WILL BE EXTINGUISHED UPON THE MATURITY OR OPTIONAL REDEMPTION OF SUCH TAXABLE ARC. THE CARRY-OVER AMOUNT WILL OTHERWISE CONTINUE TO ACCRUE ON OUTSTANDING TAXABLE ARCS.

#### **Auction Participants**

*Existing Owners and Potential Owners.* Participants in each Auction will include (a) “Existing Owners,” which shall mean (i) with respect to and for the purpose of dealing with the Auction Agent in connection with an Auction, any Person who is a Broker-Dealer listed in the existing owner registry at the close of business on the Business Day preceding the Auction Date for such Auction, and (ii) with respect to and for the purpose of dealing with the Broker-Dealer in connection with an Auction, a Person who is a beneficial owner of Taxable ARCs; and (b) “Potential Owners,” which shall mean any Person (including any Existing Owner that is (i) a Broker-Dealer when dealing with an Auction Agent and (ii) a potential owner when dealing with a Broker-Dealer), who may be interested in acquiring Taxable ARCs (or, in the case of an Existing Owner thereof, an additional principal amount of Taxable ARCs).

By purchasing Taxable ARCs, whether in an Auction or otherwise, each prospective purchaser of Taxable ARCs or its Broker-Dealer must agree and will be deemed to have agreed: (a) to participate in Auctions on the terms set forth in Appendix H hereto, (b) so long as the beneficial ownership of the Taxable ARCs is maintained in book-entry form by DTC, to sell, transfer or otherwise dispose of Taxable ARCs only pursuant to a Bid or a Sell Order (each as defined in Appendix H) in an Auction, or to or through a Broker-Dealer, provided that in the case of all transfers other than those pursuant to an Auction, the Existing Owner of Taxable ARCs so transferred, its agent member or its Broker-Dealer advises the Auction Agent of such transfer, and (c) to have its beneficial ownership of Taxable ARCs maintained at all times in book-entry form by the Securities Depository for the account of its Participant in DTC, which in turn will maintain records of such beneficial ownership, and to authorize such Participant to disclose to the Auction Agent such information with respect to such beneficial ownership as the Auction Agent may request.

**Auction Agent.** Deutsche Bank Trust Company Americas has been appointed by the Corporation as the initial Auction Agent for the Taxable ARCs. The Trustee is directed by the Corporation in the Indenture to enter into the initial Auction Agency Agreement with Deutsche Bank Trust Company Americas. Any substitute Auction Agent shall be (a) a bank or trust company duly organized under the laws of the United States of America or any state or territory thereof having its principal place of business in the Borough of Manhattan, The City of New York, and having a combined capital stock, surplus and undivided profits of at least \$40,000,000 or (b) a member of the National Association of Securities Dealers, Inc., having a capitalization of at least \$40,000,000 and, in either case, authorized by law to perform all the duties imposed upon it under the Indenture and under the Auction Agency Agreement. The Auction Agent may resign and be discharged of the duties and obligations created by the Indenture by giving at least 90 days' written notice to the Corporation, the Trustee and the Market Agent (30 days' written notice if the Auction Agent has not been paid its fee for more than 30 days). The Auction Agent may be removed at any time by the Trustee if the Auction Agent is an entity other than the Trustee, acting at the direction of either (a) the Corporation or (b) the Owners of 66-2/3% of the aggregate principal amount of the Taxable ARCs by an instrument signed by the Trustee and filed with the Auction Agent, the Corporation and the Market Agent upon at least 90 days' notice; provided that, if required by the Market Agent, an agreement in substantially the form of the Auction Agency Agreement shall be entered into with a successor Auction Agent. If the Auction Agent and the Trustee are the same entity, the Auction Agent may be removed as described above, with the Corporation acting in lieu of the Trustee.

If the Auction Agent shall resign or be removed or dissolved, or if the property or affairs of the Auction Agent shall be taken under the control of any state or federal court or administrative body because of bankruptcy or insolvency, or for any other reason, the Corporation shall use its best efforts to appoint a successor as Auction Agent, and the Trustee shall, upon direction from the Corporation, thereupon enter into an Auction Agency Agreement with such successor.

The Auction Agent is acting solely as agent for the Trustee and the Corporation in connection with Auctions, provided that the Trustee shall not be responsible for any misconduct or negligence of the Auction Agent. In the absence of bad faith or negligence on its part, the Auction Agent shall not be liable for any action taken, suffered or omitted or for any error of judgment made by it in the performance of its duties under the Auction Agency Agreement and shall not be liable for any error of judgment made in good faith unless the Auction Agent shall have been negligent in ascertaining (or failing to ascertain) the pertinent facts necessary.

**Broker-Dealer.** Existing Owners and Potential Owners may participate in Auctions only by submitting orders (in the manner described below) through a "Broker-Dealer" including UBS Financial Services Inc. as the sole initial Broker-Dealer for the Taxable ARCs or any other broker or dealer (each as defined in the Securities Exchange Act of 1934, as amended), commercial bank or other entity permitted by law to perform the functions required of a Broker-Dealer set forth below which (a) is a "Participant" (i.e., a member of, or participant in, DTC or any successor securities depository) or an affiliate of a Participant, (b) has been selected by the Corporation with the approval of the Market Agent (which approval shall not be unreasonably withheld) and (c) has entered into a Broker-Dealer Agreement with the Auction Agent that remains effective, in which the Broker-Dealer agrees to participate in Auctions as described in the Auction Procedures, as from time to time amended or supplemented.

The Broker-Dealer Agreement will provide that a Broker-Dealer may submit an order in Auctions for its own account. If a Broker-Dealer submits an order for its own account in any Auction, it might have an advantage

over other bidders in that it would have knowledge of orders placed through it in that Auction; such Broker-Dealer, however, would not have knowledge of orders submitted by other Broker-Dealers (if any) in that Auction. As a result of bidding by a Broker-Dealer in an Auction, the Auction Rate may be lower than the rate that would have prevailed had the Broker-Dealer not bid. A Broker-Dealer may also bid in an Auction in order to prevent what would otherwise be (a) a failed Auction, (b) an “all-hold” Auction, or (c) the implementation of an Auction Rate that the Broker-Dealer believes, in its sole judgment, does not reflect the market for such securities at the time of the Auction. In the Broker-Dealer Agreement, all Broker-Dealers will agree to handle customer orders in accordance with their respective duties under applicable securities laws and rules.

According to published news reports, the Securities and Exchange Commission (the “Commission”) has requested information from a number of broker-dealers regarding certain of their practices in connection with auction rate securities, such as the practices described in the preceding paragraph. The Broker-Dealer has advised the Corporation that it, as a participant in the auction rate securities markets, has received a letter from the Commission requesting that it voluntarily conduct an investigation regarding certain of its practices and procedures in connection with those markets. The Broker-Dealer is cooperating with the Commission in providing the requested information. No assurance can be given as to whether the results of this process will affect the market for the Bonds or the auctions therefor.

**Market Agent.** The “Market Agent,” initially UBS Financial Services Inc., acting pursuant to the Market Agent Agreement, and in connection with the Taxable ARCs, shall act solely as agent of the Trustee and shall not assume any obligation or relationship of agency or trust for or with any of the Beneficial Owners. The Market Agent is designated by the Corporation, and the Trustee shall not be responsible for any misconduct or negligence of the Market Agent.

#### **Taxable ARC Auctions**

Auctions to establish the Applicable ARCs Rate are to be held on each Auction Date, except as described above under “Interest -- *Applicable ARCs Rate*,” by application of the Auction Procedures described in Appendix H. “Auction Date” shall mean for the Series 2005A-2 Bonds and the Series 2005A-3 Bonds, October 4, 2005, and for the 2005 Additional Bonds the date set forth in the Additional Series 2005 Supplemental Indentures executed and delivered in connection with the issuance of such Additional Series 2005 Bonds, and thereafter, the Business Day immediately preceding the first day of each Interest Period, other than: (a) each Interest Period commencing after the ownership of the Taxable ARCs is no longer maintained in book-entry form by DTC; (b) each Interest Period commencing after the occurrence and during the continuance of a Payment Default; or (c) any Interest Period commencing less than the Applicable Number of Business Days after the cure or waiver of a Payment Default. Notwithstanding the foregoing, the Auction Date for one or more Auction Periods may be changed as described below under “Changes in Taxable ARC Auction Periods or Auction Date -- *Changes in the Taxable ARC Auction Date*”.

The Auction Agent shall determine the Maximum Auction Rate, the Maximum Interest Rate, the Maximum Rate, the All-Hold Rate, One-Month LIBOR and the Applicable LIBOR-Based Rate on each Auction Date. The determination by the Auction Agent of the Maximum Auction Rate, the Maximum Interest Rate, the Maximum Rate, the All-Hold Rate, One-Month LIBOR and the Applicable LIBOR-Based Rate will (in the absence of manifest error) be final and binding upon the Owners and all other parties. If the ownership of the Taxable ARCs is no longer maintained in book-entry form by DTC, the Trustee shall calculate the Maximum Rate on the Business Day immediately preceding the first day of each Interest Period commencing after delivery of certificates representing the Taxable ARCs. If a Payment Default shall have occurred, the Trustee shall calculate the Non-Payment Rate on the first day of (a) each Interest Period commencing after the occurrence and during the continuance of such Payment Default and (b) any Interest Period commencing less than two Business Days after the cure of any Payment Default.

For any Interest Period for which any Carry-over Amount exists, the Auction Agent shall calculate One Month LIBOR.

So long as ownership of the Taxable ARCs is maintained in book-entry form, an Existing Owner may sell, transfer or otherwise dispose of Taxable ARCs only pursuant to a Bid or Sell Order (as defined in Appendix H

hereto) placed in an Auction or through a Broker-Dealer, provided that, in the case of all transfers other than pursuant to Auctions, such Existing Owner, its Broker-Dealer or its Participant advises the Auction Agent of such transfer. Auctions shall be conducted on each Auction Date, if there is an Auction Agent on such Auction Date, in the manner described in Appendix H hereto. A description of the Settlement Procedures to be used with respect to Auctions for the Taxable ARCs is contained in Appendix I hereto.

**Changes in Taxable ARC Auction Periods or Taxable ARC Auction Date**

*Changes in Taxable ARC Auction Period or Periods.* The Market Agent with respect to the Taxable ARCs:

- (a) in order to conform with then current market practice with respect to similar securities, shall, or
- (b) in order to accommodate economic and financial factors that may affect or be relevant to the length of the Auction Period and the interest rate borne by the Taxable ARCs and with the written consent of an Authorized Officer of the Corporation, may

change, from time to time, the length of one or more Auction Periods, subject to its delivery of a Rating Confirmation. In connection with any such change, or otherwise, but for the same stated purpose, the Market Agent:

- (a) in order to conform with then-current market practice with respect to similar securities shall, and
- (b) with the written consent of an Authorized Officer of the Corporation, may

change the Interest Payment Dates; and any such change will be considered a “change in the length of one or more Auction Periods” for the Indenture. The Authorized Officer of the Corporation shall not consent to such change in the length of the Auction Period, if such consent is required as described above, unless he or she shall have received from the Market Agent not less than 3 days nor more than 20 days prior to the effective date of such change a written request for consent together with a certificate demonstrating the need for change in reliance on such factors. The Market Agent shall initiate the change in the length of one or more Auction Periods by giving written notice to the Trustee, the Auction Agent, the Corporation and DTC at least 10 days prior to the Auction Date for such Auction Period. Any such changed Auction Period shall not be less than seven days.

The change in the length of one or more Auction Periods shall not be allowed unless Sufficient Clearing Bids (as defined in Appendix H hereto) existed at both the Auction before the date on which the notice of the proposed change was given and the Auction immediately preceding the proposed change. Such change shall take effect only if certain requirements are met as described in the Indenture.

*Changes in the Taxable ARC Auction Date.* The Market Agent with respect to the Taxable ARCs:

- (a) in order to conform with then current market practice with respect to similar securities, shall, or
- (b) in order to accommodate economic and financial factors that may affect or be relevant to the day of the week constituting the Auction Date and the interest rate borne by the Taxable ARCs and with the written consent of an Authorized Officer, may

specify an earlier Auction Date (but in no event more than 5 Business Days earlier) than the Auction Date that would otherwise be determined in accordance with the definition of “Auction Date” with respect to one or more specified Auction Periods. The Authorized Officer shall not consent to such change in the Auction Date, if such consent is required as described above, unless he or she shall have received from the Market Agent not less than 3 days nor more than 20 days prior to the effective date of such change a written request for consent together with a certificate demonstrating the need for change in reliance on such factors. The Market Agent shall initiate the change

in the Auction Date by means of a written notice delivered at least 10 days prior to the proposed changed Auction Date for such Auction Period to the Trustee, the Auction Agent, the Corporation and DTC.

In connection with any change in the Auction terms described above, the Auction Agent shall provide such further notice to such parties as is specified in the Auction Agency Agreement.

No change shall be made to the Auction Period or Auction Date unless the Corporation shall have received confirmation from any rating agency then rating the Bonds that the ratings on any of the Bonds will not be adversely affected thereby.

## THE CORPORATION

The General Assembly of the Commonwealth established the Corporation in 1978 to provide a program of financing, making and purchasing student loans (as defined below) in the Commonwealth.

### Governance and Functions

The Corporation is an independent *de jure* municipal corporation and political subdivision of the Commonwealth. The Corporation is authorized by the Corporation Act: (a) to make, purchase and sell, and to participate in the making, purchasing and selling of student loans (as defined below); (b) to collect and pay reasonable fees and charges in connection with its making, purchasing, selling and servicing of student loans; (c) to procure insurance in respect of all student loans made or purchased by it; (d) to make, execute, and effectuate agreements with any federal or state agency, person, or entity necessary to accomplish its corporate purposes; (e) to accept and comply with the conditions of any appropriations, loans, grants, and other aid to the Corporation; (f) to invest its funds not required for immediate disbursement; (g) to issue its notes and bonds for the purpose of carrying out its corporate powers and duties; (h) to service and collect educational loans for other lenders, holders and educational institutions; (i) to establish, finance and operate educational loan programs deemed necessary by KHEAA to make or cause to be made educational loans to meet the financial needs of eligible borrowers; and (j) in connection with such programs, enter into agreements with loan servicing organizations, guarantors, insurers, financial institutions, eligible lenders and eligible institutions.

The term “student loans” as used under the heading “THE CORPORATION” means any education loan.

The Corporation is governed by its Board of Directors, which may officially act by a majority of its members. The Board of Directors consists of fifteen members, of whom ten are appointed by the Governor from the general public residing in the Commonwealth to serve a term of four years each and five serve *ex officio* by reason of their positions as Treasurer of the Commonwealth, President of the Council on Postsecondary Education of the Commonwealth, Secretary of the Finance and Administration Cabinet of the Commonwealth, President of the Association of Independent Colleges and Universities and Commissioner of Education. The Board of Directors elects from its membership a Chair, Chair Elect, and Secretary-Treasurer.

The Corporation’s current Chair, Chair Elect, Secretary-Treasurer and other Directors are set forth below.

### Board of Directors of the Corporation

#### Name of Director

#### Principal Occupation

Joey B. Bailey

Executive Vice President, Chief Financial  
Officer and Treasurer  
Presbyterian Church (U.S.A.)  
Louisville, Kentucky

Marcia Kuegel Carpenter  
Secretary-Treasurer

Guidance Counselor  
Daviness County Public Schools  
Owensboro, Kentucky

Dr. Sarah Laws

Provost  
Midway College  
Midway, Kentucky

Janis G. Garr

Human Resource Manager  
Ashland, Inc.  
Lexington, Kentucky

Ronald Dean Butt

Certified Financial Planner  
ARGI Financial Group  
Louisville, Kentucky

David W. Stanfield

High School Principal  
Harrodsburg Independent High School  
Harrodsburg, Kentucky

Jim A. Jackson  
Chair

Retired  
Frankfort, Kentucky

Jerry Shroat

Retired  
Union, Kentucky

Spencer Noe  
Chair Elect

Attorney at Law  
Bowles, Rice, McDavid, Graff & Love  
Lexington, Kentucky

John G. Prather, Jr.

Attorney at Law  
Somerset, Kentucky

Gary S. Cox (*ex officio*)

President  
Association of Independent Colleges & Universities  
Frankfort, Kentucky

Robbie Rudolph (*ex officio*)

Secretary, Finance and Administration  
Cabinet, Commonwealth of Kentucky  
Frankfort, Kentucky

Jonathan Miller (*ex officio*)

State Treasurer  
Office of the Kentucky State Treasurer  
Frankfort, Kentucky

Dr. Thomas Layzell (*ex officio*)

President  
Council on Postsecondary Education  
Frankfort, Kentucky

Gene Wilhoit (*ex officio*)

Commissioner  
Kentucky Department of Education  
Frankfort, Kentucky

The Corporation's bylaws provide that officers of its Board of Directors serve until replaced.

The Corporation currently has a staff of approximately 350 full-time equivalent employees. Its principal office is located at 10180 Linn Station Road, Post Office Box 24266, Louisville, Kentucky, 40224-0266, telephone number (502) 329-7079, website [www.studentloanpeople.com](http://www.studentloanpeople.com).

### **Principal Management Personnel**

Principal management personnel involved in the Corporation's Program and servicing activities are as follows:

Joe L. McCormick, Executive Director and Chief Executive Officer, has overall management responsibility for the Corporation. Dr. McCormick also serves as Executive Director of KHEAA. Prior to this appointment in 2001, Dr. McCormick had 23 years of experience in student financial aid, including 12 years serving as President and Chief Executive Officer of the Texas Guaranteed Student Loan Corporation and four years with the United States Department of Education in Washington, D.C. Dr. McCormick is a member of the Federal Executive Institute. He holds a B.A. in Political Science from West Texas State University, a Master's Degree in Political Science from Mississippi State University and a Doctor of Philosophy in Education Policy and Training from the University of Texas at Austin.

Roger B. Tharp, President and Chief Operating Officer, has overall responsibility for operations of the Corporation. Before this appointment in 1993, he was Director of the Division of Program Administration for KHEAA for nineteen years. He has served as Secretary for the National Council on Higher Education Loan Programs and served on its Servicing Committee. He is also a member of the Student Loan Servicing Alliance and currently serves on its Board of Directors. His previous employment includes six combined years of financial aid management experience at the United Electronics Institute and the University of Louisville, and one year in credit management for Sears, Roebuck and Company. Mr. Tharp holds an M.B.A. from the University of Louisville and a B.S. degree in Business and Economics from the University of Kentucky.

Charles J. Robinson, CPA, Chief Financial Officer, has responsibility for all financial matters for both KHEAA and the Corporation. Mr. Robinson joined the Corporation in October 2002. He has over 15 years of student loan experience. Mr. Robinson worked for another student loan company prior to his current post. He graduated from West Texas State University with a double major in accounting and finance.

Richard Casey, General Counsel to KHEAA and the Corporation, provides legal services to both organizations. Mr. Casey joined KHEAA and the Corporation as General Counsel in 1978. He holds a J.D. degree from the University of Louisville and a B.S. degree in political science from Centre College of Kentucky.

Sherry M. Cooper, Senior Vice President-Corporate Counsel, is responsible for general legal and contractual compliance activities. Ms. Cooper joined the Corporation in April 1997, after serving as an attorney with the Kentucky Department of Insurance. Her previous employment also includes serving an appointment on the Kentucky Health Policy Board, two years in the private practice of law, and four years with Legal Services. Since 1998, Ms. Cooper has served on the NCHELP Regulation Committee and has participated in the NCHELP Legal Committee. Ms. Cooper holds a J.D. from Chase College of Law, Northern Kentucky University, and a B.A. in Elementary Education from the College of the Ozarks, Missouri.

Mary C. Henry, Senior Vice President-Operations, is responsible for customer service, loan administration and operational support. Ms. Henry joined the Corporation in 1994 and previously served as Vice President, Information Systems. Her prior employment includes fifteen years with Liberty National Bank & Trust Company, where she served as Vice President of Student and Retirement Services. Ms. Henry is a graduate of Bellarmine College, Louisville, with an M.B.A., and a graduate of the University of Louisville, with a B.S. in Commerce.

### **The Corporation's Program and Servicing Activities**

*General.* The Corporation's Program and servicing activities currently include: (i) the origination and secondary market acquisition of Higher Education Act Eligible Loans; (ii) the financing of Higher Education Act Eligible Loans; and (iii) the servicing of Higher Education Act Eligible Loans and of other student loans. The Corporation reserves the right to expand its Program activities to include the origination, acquisition and financing



of other student loans, subject to compliance with applicable law and contractual requirements. The Corporation intends to finance only Higher Education Act Eligible Loans with the original proceeds of the 2005 Bonds. However, the Indenture permits the inclusion in the Trust Estate of HEAL Loans, Qualified Institution Loans and Alternative Student Loans upon receipt of a Rating Confirmation with respect to each different type of such loans.

*Higher Education Act Eligible Loan Origination and Acquisition.* The Corporation is an eligible lender for purposes of the Federal Family Education Loan Program and originates Higher Education Act Eligible Loans both for its own account and on behalf of other eligible lenders. Certain origination functions are performed for the Corporation by KHEAA. In addition, the Corporation acquires Higher Education Act Eligible Loans from other eligible lenders, both pursuant to ongoing contractual obligations and on a transactional basis. Sixteen (16) lending institutions currently refer loan applications to the Corporation for origination and three lending institutions currently participate in the secondary market program.

*Higher Education Act Eligible Loan Financing.* The Corporation has heretofore issued numerous series of its student loan revenue bonds under resolutions separate and apart from the Indenture, of which \$947,250,000 remained outstanding as of June 30, 2005 (collectively, the "Education Finance Bonds"). The Education Finance Bonds are not secured by the Indenture, or by any interest in the Trust Estate pledged under the Indenture to the payment of the Bonds, including the 2005 Bonds.

The Corporation currently has in effect a line of credit agreement (the "Line of Credit") pursuant to which it may receive advances from time to time in an aggregate outstanding principal amount of up to \$100,000,000. Payment obligations of the Corporation arising from advances pursuant to the Line of Credit are limited as to recourse to the trust estate established pursuant to a Line of Credit Trust Agreement.

As of March 31, 2005, the Corporation held \$1,209,000,000 of student loans under the Indenture and two other resolutions and the Line of Credit. These student loans consisted entirely of Higher Education Act Eligible Loans.

The Corporation reserves the right (in addition to the right to issue Additional Bonds under the Indenture as described herein): (i) to issue additional Education Finance Bonds, to finance and refinance Higher Education Act Eligible Loans and other student loans; (ii) to enter into financing agreements that are secured on a basis separate and apart from the Existing Bonds, the 2005 Bonds and from the Education Finance Bonds in connection with its Program; (iii) to finance student loans that are newly originated or acquired by the Corporation pursuant to any financing arrangement under which funds are available therefor; and (iv) to effect the release of student loans from the lien of any financing arrangement, including the Indenture, in accordance with the terms thereof through application of amounts available therefor pursuant to any financing arrangement, including the Indenture.

Effective July 1, 2005, the Commonwealth's approved Biennial Budget required the Corporation to transfer \$82,796,200 to the General Fund and to support various state tuition programs. A transfer from resolutions separate and apart from the Indenture of \$16,348,100 was made in fiscal year 2005 and \$66,448,100 will be made from released fund equity and net income in fiscal year 2006. The Corporation does not believe that these transfers will have any adverse effect on the pledge or application of any moneys or security provided for the payment of the 2005 Bonds.

*Availability of Eligible Loans.* The Corporation expects to apply by September 30, 2006 all 2005 Bond proceeds initially available to finance Eligible Loans to the origination or purchase of Eligible Loans that are Higher Education Act Eligible Loans and are guaranteed by KHEAA. See "SOURCES AND USES OF FUNDS", "THE GUARANTY AGENCY" and Appendix A – "SUMMARY OF CERTAIN PROVISIONS OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM".

*Servicing of Student Loans.* The Corporation currently expects to service in-house all Financed Eligible Loans. It currently services approximately \$1.2 billion outstanding principal amount of student loans that are pledged as security for its Education Finance Bonds, the Line of Credit and the Bonds. The Corporation also services approximately \$5.72 billion of Higher Education Act Eligible Loans and other student loans on behalf of other holders, including holders with national lending operations. In addition, the Corporation currently collects upon approximately \$1 million of Higher Education Act Eligible Loans and other student loans for other holders on

a commission basis. The Corporation expects to enter into additional servicing and collection agreements, and to increase the outstanding balance and number of student loans under existing agreements. The Corporation's servicing obligations pursuant to such servicing and collection agreements are without recourse to assets pledged to secure the 2005 Bonds. The Corporation currently subcontracts certain servicing functions. The Corporation deposits all student loan payments upon receipt into clearing accounts with financial institutions and periodically transfers payments from such clearing accounts to the applicable holder or fiduciary.

The Corporation currently services its student loans utilizing software purchased from IFA Systems, a division of Idaho Financial Associates, Inc. ("IFA"), which has been in the student loan business for over 15 years. In January 2002, IFA merged with National Education Loan Network ("Nelnet"), a large national student loan asset manager headquartered in Lincoln, Nebraska. IFA now operates as a subsidiary of Nelnet. The Corporation has entered into an agreement with IFA Systems pursuant to which IFA has agreed to provide, from time-to-time, program changes to assure that the Corporation is able to comply with changes in provisions of the Higher Education Act. IFA Systems also makes certain other software changes and enhancements requested by the Corporation in its role as servicer for various types of student loans.

The Higher Education Act requires that the Corporation and its agents and employees exercise "due diligence" in the servicing and collection of Higher Education Act Eligible Loans. The Higher Education Act defines "due diligence" to require the holders of a Higher Education Act Eligible Loan to utilize collection practices at least as extensive and forceful as those generally practiced by financial institutions for the collection of consumer loans. Federal regulations prescribe a series of actions that must be taken by a lender in the collection of delinquent (past due) Higher Education Act Eligible Loans. Additionally, those regulations set forth specific requirements that a lender or holder of Higher Education Act Eligible Loans must meet to constitute due diligence in the making, disbursing, and servicing of Higher Education Act Eligible Loans. Failure to exercise such reasonable care and diligence may result in the disqualification of an "eligible lender" (which could include the Corporation as a holder of Higher Education Act Eligible Loans) from further federal insurance payments on affected loans if the applicable guaranty agency determines that the foregoing standards have not been met. The Corporation or a lender may not relieve itself of its responsibility for meeting these standards by delegation to any servicing agent and, accordingly, if any third party servicer of the Corporation's Higher Education Act Eligible Loans fails to meet such standards, the Corporation's ability to realize the benefits of the guaranty agency's insurance payments may be adversely affected.

The Higher Education Act requires that a guaranty agency ensure that due diligence be exercised by lenders in making, servicing and collecting Higher Education Act Eligible Loans guaranteed by the guaranty agency. Each guaranty agency must establish procedures and standards for due diligence that are consistent with federal standards. If the Corporation or any third party servicer of the Corporation's Higher Education Act Eligible Loans does not comply with the due diligence standards established by the Higher Education Act and federal regulations, then the Corporation's ability to realize the benefits of guarantee payments and the guaranty agency's ability to realize the benefits of federal reinsurance payments may be adversely affected.

The Corporation retains the right to provide for administration of its Program in the most economically efficient manner, subject to its contractual obligations in connection with financings. The Indenture permits the Corporation to offer the following program of borrower benefits with respect to the Financed Eligible Loans: (i) the Corporation pays the 3% origination fee on Stafford Loans in certain states; (ii) a 3.5% repayment reduction on Stafford Loans after 30 on-time payments; (iii) a 1% principal reduction on PLUS Loans after 90 days of being fully disbursed; (iv) a 1% interest rate reduction on PLUS Loans after 30 on-time payments; (v) a 1% interest rate reduction on Consolidation Loans after 30 on-time payments; and (vi) a 0.25% reduction for ACH. The Corporation may offer additional borrower benefits provided it obtains a Rating Confirmation.

Prior to an Event of Default, the Trustee has no duties or obligations to service or collect or monitor the servicing and collecting of student loans by the Corporation as servicer or any other subservicer. The Trustee also is not responsible for accounting and reporting functions required under the Higher Education Act to preserve the guarantee of the guaranty agency or the insurance of the Secretary on the Financed Higher Education Act Eligible Loans.

Prior to an Event of Default, the Corporation, and not the Trustee, is the custodian of the Financed Eligible Loan notes. The Trustee shall have no responsibility for loss of or damage to the Financed Eligible Loan notes held

by the Corporation as the custodian or by its agents. The Corporation as custodian, and not the Trustee, is responsible for reviewing and servicing, respectively, each Financed Eligible Loan and safekeeping and preserving it. The Trustee shall have no responsibility or liability for examination, safekeeping, preserving, or servicing of the Financed Eligible Loans.

The Trustee may have certain duties relating to the foregoing matters specified in the preceding two paragraphs upon the occurrence of an Event of Default, as provided in the Indenture.

## **THE GUARANTY AGENCY**

The Corporation expects to apply all original 2005 Bond proceeds to be initially deposited in the Loan Fund to finance Higher Education Act Eligible Loans that are guaranteed by KHEAA.

### **The Kentucky Higher Education Assistance Authority**

KHEAA is a public corporation and governmental agency and instrumentality of the Commonwealth established in 1966 to serve the public purpose of improving opportunities for higher education by insuring student loans for students eligible under the Higher Education Act; providing loans, grants, and scholarship awards to qualified Kentucky students; and offering information relating to KHEAA programs to Kentucky residents.

The powers of KHEAA with respect to insuring student loans include: (i) providing loan insurance within the limitations of Kentucky law and the Higher Education Act, the loan in each case to be subject to agreements providing for interest payments, reimbursements, reinsurance and other benefits to the extent provided by the Higher Education Act; (ii) entering into agreements and undertakings with the Secretary to constitute KHEAA as a state agency qualified to insure student loans under the Higher Education Act and to qualify such student loans for interest subsidies, reimbursement, reinsurance, and other benefits available under the Higher Education Act; (iii) entering into contracts with eligible lenders and eligible education institutions to provide for the administration of student financial assistance programs; (iv) collecting from the borrower amounts due under a student loan on which KHEAA has fulfilled its insurance obligations following the inability of the holders to collect such loan; (v) approving, limiting, suspending, or terminating the eligibility of educational institutions or lenders to participate in KHEAA's Loan Guarantee Program, subject to the provisions of the Higher Education Act and applicable Kentucky law; (vi) if any conflict exists between applicable Commonwealth law and the Higher Education Act that would result in a loss by KHEAA of federal funds, adopting rules, regulations, and policies consistent with the Higher Education Act, but which are not in derogation of the Constitution and general laws of the Commonwealth; (vii) administering federal funds allotted to the Commonwealth in respect of student loans, administrative costs, and other matters; and (viii) receiving funds and acquiring property from any source, public or private, except that KHEAA has no power to make its debts payable out of any funds other than those of KHEAA.

In addition to its student loan guarantee functions, KHEAA offers origination services to lenders, administers two state grant programs, one merit scholarship program, one teacher incentive loan program, one osteopathic medicine scholarship program and the state work-study program to provide financial assistance to eligible students. Such programs are substantially funded by the Commonwealth supplemented by federal funds. KHEAA is also responsible for the Kentucky Education Savings Plan Trust (the "Trust"). The Trust offers opportunities for families to save for future college costs. Trust funds are fully segregated from all other funds managed by KHEAA.

KHEAA is governed by its Board of Directors, which may officially act by a majority of its voting members. The Board of Directors of KHEAA consists of 15 members, of whom 10 are appointed by the Governor from the general public residing in the Commonwealth to serve a term of four years each and five serve *ex officio* by reason of their positions as Treasurer of the Commonwealth, President of the Council on Postsecondary Education of the Commonwealth, Secretary of the Finance and Administration Cabinet of the Commonwealth, President of the Association of Independent Colleges and Universities and Commissioner of the Kentucky Department of Education. The Board of Directors elects from its membership a Chair, Chair-elect, and Secretary-Treasurer. The Executive Director of KHEAA is Joe L. McCormick. Dr. McCormick also serves as Executive Director and Chief Executive

Officer of the Corporation. KHEAA's office is located at 100 Airport Road, Frankfort, Kentucky 40601, telephone number (502) 696-7200. See "THE CORPORATION—Governance and Functions".

*KHEAA's Loan Guarantee Program.* KHEAA guarantees student loans as the designated guaranty agency of the Commonwealth under Section 428(c) of the Higher Education Act. KHEAA is also the designated guaranty agency for the State of Alabama under Section 428(c) of the Higher Education Act. Pursuant to KHEAA's Loan Guarantee Program, any eligible holder of a loan guaranteed by KHEAA is entitled to reimbursement from KHEAA to the maximum extent permitted by the Higher Education Act for any proven loss incurred resulting from the default, death, permanent and total disability, or discharge in bankruptcy of the borrower and with respect to certain other claims. At the time KHEAA pays a claim for reimbursement of a defaulted loan, the holder must assign to KHEAA all rights accruing to the holder under the note.

*Federal Student Loan Reserve Fund ("FSLRF").* KHEAA has established a FSLRF, a federal fiduciary fund used to account for all loan related activities. The FSLRF was established on October 1, 1998, under the Higher Education Amendments of 1998. As of June 30, 2005, the unaudited balance in the FSLRF was \$10,735,937. Sources of funds for the FSLRF include: (i) insurance premiums for loans guaranteed; (ii) reinsurance from the Secretary for default and other claims paid; (iii) default collection compliment; and (iv) investment income derived from such funds. The FSLRF is used for default and other claims on loans guaranteed, and to pay default aversion fees.

*Agency Operating Fund ("AOF").* KHEAA has established an AOF, an operating fund used to account for all administration of loan related activities. The AOF was established on October 1, 1998, under the Higher Education Amendments of 1998. As of June 30, 2005, the unaudited balance in the AOF was \$27,010,009. Sources of funds for the AOF include: (i) federal account maintenance fees and loan processing and issuance fees; (ii) default aversion fees; (iii) default collections; (iv) and investment income derived from such funds. Uses of funds are operating expenses and transfers to the governmental fund for administration of student aid and outreach programs.

KHEAA is authorized to issue loan guarantees to eligible lenders on any loans to qualified students. Funds available in the Loan Insurance Fund are calculated on the basis of the net assets before deducting unearned insurance premiums, which equals the fund balance plus unearned insurance premiums. Funds available in the Loan Insurance Fund are restricted by federal regulations and the Higher Education Act.

Pursuant to the 1997 Amendments, KHEAA paid approximately \$14 million (its proportionate share of guarantee agency reserves to be paid for federal deficit reduction) to the Secretary on September 1, 2002. The 1998 Amendments also require smaller proportionate reserve returns in 2002, 2006 and 2007. On July 11, 2002, the Secretary notified KHEAA that its share of the reserve returns in 2002, 2006 and 2007 would be approximately \$3.5 million. KHEAA paid \$1 million towards its share of the reserve returns on September 1, 2002. See APPENDIX A, "SUMMARY OF CERTAIN PROVISIONS OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM—Federal Insurance and Reinsurance and Reimbursement of Guaranty Agencies".

The following table summarizes the student loans guaranteed by KHEAA (and reinsured by the Secretary) annually, the aggregate outstanding guarantee commitment for the periods indicated, and KHEAA's Claims Rate for purposes of reinsurance. The Coverage Ratio set forth below is determined by dividing the funds available in the Loan Insurance Fund by the principal amount of the aggregate outstanding guarantee commitment.

Fiscal Year Ended <u>June 30</u>	Annual Principal Amount of <u>Loans Guaranteed</u>	Aggregate Principal Guarantee <u>Commitment</u>	Coverage <u>Ratio</u>	Claims <u>Rate*</u>
2000	\$454,779,609	\$1,976,730,128	1.48%	1.43%
2001	542,872,356	1,947,932,104	1.35	1.62
2002	662,753,138	2,336,677,000	0.84	1.73
2003	787,887,900	2,602,904,617	0.63	2.28
2004	960,906,210	2,908,356,000	0.44	1.68

\*At federal fiscal year ending September 30.

*No Pledge of KHEAA's Funds and Assets.* The funds and assets of KHEAA are not pledged to or available for payment of the Bonds. Funding of KHEAA's operations is subject to authorization by the General Assembly of the Commonwealth.

## CONTINUING DISCLOSURE

### General

In accordance with the requirements of Rule 15c2-12 (the "Rule") promulgated by the Securities and Exchange Commission (the "SEC"), the Corporation will enter into a continuing disclosure undertaking (the "Continuing Disclosure Agreement") with the Trustee for the 2005 Bonds, which shall constitute a written undertaking for the benefit of the respective owners of such Bonds, solely to assist the Underwriter in complying with subsection (b)(5) of the Rule.

The Corporation will agree in the Continuing Disclosure Agreement to provide to each nationally recognized municipal securities information repository and any public or private repository or entity designated by the Commonwealth as a state repository for purposes of subsection (b)(5) of the Rule (each, a "Repository"), annual financial information and operating data (the "Annual Financial Information") relating to it and any Additional Obligated Persons (defined below) covering the matters described under "Annual Financial Information" below. The Corporation will also agree to provide to each Repository, in a timely manner, notice of any of the events ("Event Notice") if determined by the Corporation to be material, as described under "Event Notices" below. Any filings made under the Continuing Disclosure Agreement may be made solely by transmitting such filing to the Texas Municipal Advisory Council (the "MAC") as provided at [www.disclosureusa.org](http://www.disclosureusa.org) unless the United States Securities and Exchange Commission has withdrawn the interpretive advice in its letter to the MAC dated September 7, 2004.

The Corporation has never failed to comply in all material respects with any previous undertakings with regard to said Rule to provide Annual Financial Information or notices of material events. The on-going disclosure obligations of the Corporation shall terminate upon the full payment, prior redemption or legal defeasance of the 2005 Bonds, or with respect to any Additional Obligated Person, at the time that the party no longer meets the definition of Additional Obligated Person.

The Corporation may appoint or engage a dissemination agent to assist in carrying out its obligations under the Continuing Disclosure Agreement.

The Corporation may amend the Continuing Disclosure Agreement, and waive any provision thereof, by written agreement of the parties, without the consent of the respective owners of the applicable Series of 2005 Bonds (except to the extent required under clause (4)(ii) below) if all of the following conditions are satisfied: (1) such

amendment is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules or regulations) or in interpretations thereof, or a change in the identity, nature or status of the Corporation or any Additional Obligated Person or the type of business conducted thereby; (2) the applicable Continuing Disclosure Agreement as so amended would have complied with the requirements of the Rule as of the date of the Continuing Disclosure Agreement, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; (3) the Corporation shall have delivered to the Trustee an opinion of nationally recognized bond counsel or counsel expert in federal securities laws, addressed to the Corporation and the Trustee, to the same effect as set forth in clause (2) above; (4) either (i) the Corporation shall have delivered to the Trustee an opinion of nationally recognized bond counsel or counsel expert in federal securities laws, addressed to the Corporation and the Trustee, to the effect that the amendment does not materially impair the interests of the respective holders of the applicable Series of 2005 Bonds, or (ii) the holders of the 2005 Bonds consent to the amendment to the Continuing Disclosure Agreement pursuant to the same procedures as are required for amendments to the Indenture with consent of the respective holders of the applicable Series of 2005 Bonds pursuant to the terms of the Indenture as in effect on the date of such Continuing Disclosure Agreement; and (5) the Corporation shall have delivered copies of such opinion and amendment to each Repository.

In the event of default by the Corporation of its obligations under the Continuing Disclosure Agreement to provide continuing disclosure, the Beneficial Owners of the 2005 Bonds and the Trustee on behalf of such owners may take action to compel compliance, provided that any enforcement action by any such person shall be limited to a right to obtain specific enforcement of the Corporation's obligations under the Continuing Disclosure Agreement. No such default under the Continuing Disclosure Agreement shall constitute an Event of Default under the Indenture.

#### **Annual Financial Information**

The Corporation will provide Annual Financial Information for the Corporation and any Additional Obligated Person within 270 days of the end of such party's fiscal year (the "Reporting Date"), beginning with the fiscal year in each case ending on or after July 1, 2005. Such Annual Financial Information shall consist of the following information:

(I) Annual audited financial statements for the Corporation and for any Additional Obligated Person prepared in accordance with generally accepted accounting principles.

(II) An update of the tabular information presented under the heading "THE CORPORATION" and the heading "THE GUARANTY AGENCY" in this Official Statement.

If the audited financial statements for the Corporation or the Additional Obligated Person, as the case may be, are not available by the Reporting Date, unaudited financial statements of the Corporation or an Additional Obligated Person, as the case may be, are to be provided as part of the applicable Annual Financial Information and audited financial statements for the Corporation or an Additional Obligated Person, as the case may be, when and if available, will be provided to the Trustee and each Repository. If the fiscal year of the Corporation or an Additional Obligated Person, as the case may be, changes, the Corporation or an Additional Obligated Person, as the case may be, shall give notice of such change in the same manner and time as an Event Notice.

#### **Event Notice**

In addition to the Annual Financial Information described above, the Corporation will also agree to provide an Event Notice upon the happening of and with respect to any of the following events, if material, with respect to the applicable series of 2005 Bonds:

- (1) Principal and interest payment delinquencies;
- (2) Nonpayment related defaults;
- (3) Unscheduled draws on the debt service reserves reflecting financial difficulties;
- (4) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (5) Substitution of credit or liquidity providers, or their failure to perform;

- (6) Adverse tax opinions or events adversely affecting the tax exempt status of the Series 2005 Tax-Exempt Bonds;
- (7) Modifications to rights of owners of the 2005 Bonds;
- (8) Calls of the 2005 Bonds;
- (9) Defeasances of the 2005 Bonds;
- (10) Release, substitution or sale of assets securing repayment of the 2005 Bonds; and
- (11) Rating changes.

## Definitions

“Additional Obligated Person” means, prior to receipt by the Trustee of a Negative Opinion or the issuance of a written interpretation by the Staff of the SEC, any Guarantor that is guaranteeing student loans having an aggregate principal amount of at least 20% of the aggregate principal amount of all student loans.

“Negative Opinion” means an opinion with respect to a person or entity that is issued by a nationally recognized bond counsel firm or counsel expert in federal securities laws, which counsel and opinion are in form and substance acceptable to the Corporation, to the effect that such person or entity does not constitute an “obligated person” with respect to the 2005 Bonds within the meaning of the Rule.

## Repository

A listing of active NRMSIR’s and contact information for each such NRMSIR is currently made available by the SEC on its website at <<http://www.sec.gov/info/municipal/nrmsir.htm>>. The following are the current repositories for the purposes of the continuing disclosure required under each Continuing Disclosure Agreement:

Bloomberg Municipal Repository  
Attention: Municipal Department  
100 Business Park Drive  
Skillman, NJ 08558  
E-Mail Address: [Munis@Bloomberg.com](mailto:Munis@Bloomberg.com)  
Telephone: (609) 279-3225  
Fax: (609) 279-5962

DPC Data Inc.  
One Executive Drive  
Fort Lee, NJ 07024  
Attention: Operations  
E-Mail Address: [nrmsir@dpcdata.com](mailto:nrmsir@dpcdata.com)  
Telephone: (201) 346-0701  
Fax: (201) 947-0107

Standard & Poor’s Securities Evaluations, Inc.  
55 Water Street  
45<sup>th</sup> Floor  
New York, New York 10041  
E-Mail Address: [nrmsir\\_repository@sandp.com](mailto:nrmsir_repository@sandp.com)  
Telephone: (212) 438-4595  
Fax: (212) 438-3975

FT Interactive Data  
Attn: NRMSIR  
100 William Street, 15<sup>th</sup> Floor  
New York, New York 10038  
E-Mail Address: [nrmsir@interactivedata.com](mailto:nrmsir@interactivedata.com)  
Telephone: (212) 771-6999  
Fax: (212) 771-7390

## TAX MATTERS

### General

In the opinion of Kutak Rock LLP, Bond Counsel, under existing laws, regulations, rulings and judicial decisions, interest on the Series 2005A-1 Bonds and the Series 2005B-1 Bonds (collectively, the “Series 2005 Tax-Exempt Bonds”) is excluded from gross income for federal income tax purposes. The opinion described in the preceding sentence assumes the accuracy of certain representations and compliance by the Corporation with covenants designed to satisfy the requirements of the Internal Revenue Code of 1986, as amended (the “Code”), that must be met subsequent to the issuance of the Series 2005 Tax-Exempt Bonds. Failure to comply with such requirements could cause interest on the Series 2005 Tax-Exempt Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Series 2005 Tax-Exempt Bonds. The Corporation has covenanted to comply with such requirements. Bond Counsel is further of the opinion that interest on the Series 2005 Tax-Exempt Bonds is a specific preference item for purposes of the federal alternative minimum tax.

In the opinion of Bond Counsel, under existing laws, regulations, rulings and judicial decisions, interest on the Series 2005A-2 Bonds, the Series 2005A-3 Bonds, the Series 2005A-4 Bonds, the Series 2005A-5 Bonds, the Series 2005A-6 Bonds and the Series 2005A-7 Bonds (collectively, the "Series 2005 Taxable Bonds") is not excludable from gross income under Section 103 of the Code.

Bond Counsel is also of the opinion that, under existing statutes of the Commonwealth, the 2005 Bonds and the income thereon and the transfer thereof, including any profit made on the sale thereof, shall at all times be exempt from taxation or assessment of any type by the Commonwealth, its agencies and departments and by all political subdivisions within the Commonwealth.

Bond Counsel has expressed no opinion regarding any other federal or state tax consequences arising with respect to the 2005 Bonds.

#### **Tax Matters Related to the Series 2005 Tax-Exempt Bonds**

The accrual or receipt of interest on the Series 2005 Tax-Exempt Bonds may otherwise affect the federal income tax liability of the owners of the Series 2005 Tax-Exempt Bonds. The extent of these other tax consequences will depend upon such owner's particular tax status and other items of income or deduction. Bond Counsel has expressed no opinion regarding any such consequences. Purchasers of the Series 2005 Tax-Exempt Bonds, particularly purchasers that are corporations (including S corporations and foreign corporations operating branches in the United States), property or casualty insurance companies, banks, thrifts, or other financial institutions, certain recipients of social security or railroad retirement benefits, taxpayers otherwise entitled to claim the earned income credit, or taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, should consult their tax advisors as to the tax consequences of purchasing or owning the Series 2005 Tax-Exempt Bonds.

From time to time, there are legislative proposals in the Congress that, if enacted, could alter or amend the federal tax matters referred to above or adversely affect the market value of the Series 2005 Tax-Exempt Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether if enacted it would apply to bonds issued prior to enactment. Purchasers of the Series 2005 Tax-Exempt Bonds should consult their tax advisors regarding any pending or proposed tax legislation. The opinions expressed by Bond Counsel are based upon existing legislation as of the date of issuance and delivery of the Series 2005 Tax-Exempt Bonds and Bond Counsel has expressed no opinion as of any date subsequent thereto or with respect to any pending or proposed legislation.

#### **Tax Matters Related to the Series 2005 Taxable Bonds**

The following summary of certain United States federal income tax consequences with respect to the Series 2005 Taxable Bonds is based on current law and is for general information only. This summary is generally limited to owners who have acquired the Series 2005 Taxable Bonds in the original offering as "capital assets" (generally, property held for investment). The tax treatment of an owner of the Series 2005 Taxable Bonds may vary depending upon such owner's particular situation. Certain owners of the Series 2005 Taxable Bonds (including insurance companies, tax-exempt organizations, financial institutions, brokers, dealers, foreign corporations or other entities and persons who are not citizens or residents of the United States) may be subject to special rules not discussed below. Prospective owners should consult their tax advisors to determine the federal, state, local and other tax consequences of the purchase, ownership and disposition of the Series 2005 Taxable Bonds.

***Characterization of the Series 2005 Taxable Bonds as Indebtedness.*** The Corporation intends for applicable tax purposes, that the Series 2005 Taxable Bonds will be indebtedness of the Corporation secured by the Financed Eligible Loans. The Owners, by accepting the Series 2005 Taxable Bonds, have agreed to treat the Series 2005 Taxable Bonds as indebtedness of the Corporation for federal income tax purposes. The Corporation intends to treat this transaction as a financing reflecting the Series 2005 Taxable Bonds as its indebtedness for tax and financial accounting purposes. Bond Counsel is of the opinion that the Series 2005 Taxable Bonds should be treated as indebtedness of the Corporation and that interest on the Series 2005 Taxable Bonds is not excludable from gross income under Section 103 of the Code, each for federal income tax purposes. Attached hereto as Appendix E are the proposed forms of the tax opinions of Bond Counsel with respect to the Series 2005 Taxable Bonds.



In general, the characterization of a transaction as a sale of property rather than a secured loan, for federal income tax purposes, is a question of fact, the resolution of which is based upon the economic substance of the transaction, rather than its form or the manner in which it is characterized. While the Internal Revenue Service (the "Service") and the courts have set forth several factors to be taken into account in determining whether the substance of a transaction is a sale of property or a secured indebtedness, the primary factor in making this determination is whether the transferee has assumed the risk of loss or other economic burdens relating to the property and has obtained the benefits of ownership thereof. Notwithstanding the foregoing, in some instances, courts have held that a taxpayer is bound by the particular form it has chosen for a transaction, even if the substance of the transaction does not accord with its form.

The Corporation believes that it has retained the preponderance of the benefits and burdens associated with the Financed Eligible Loans. Therefore, the Corporation believes that it should be treated as the owner of the Financed Eligible Loans for federal income tax purposes, and the Series 2005 Taxable Bonds should be treated as its indebtedness for federal income tax purposes. If, however, the Service were to successfully assert that this transaction should not be treated as a loan secured by the Financed Eligible Loans, the Service could further assert that the Indenture created a separate entity for federal income tax purposes which would be the owner of the Financed Eligible Loans and would be deemed engaged in a business. Such entity, the Service could assert, should be characterized as an association or publicly traded partnership taxable as a corporation. In such event, the separate entity would be subject to corporate tax on income from the Financed Eligible Loans, reduced by interest on the Series 2005 Taxable Bonds. Any such tax could materially reduce cash available to make payment on the Series 2005 Taxable Bonds.

**Stated Interest.** In general, all interest payments on Series 2005 Taxable Bonds that are payable at the Auction Rate will be includable in the owner's gross income as ordinary interest income in accordance with such owner's regular method of accounting for tax purposes. For cash basis owners, such payments will be includable in income when received (or when made available for receipt, if earlier). For accrual basis owners, such payments will be includable in income when all events necessary to establish the right to receive such payments have occurred. In the event that the Auction Rate exceeds the Maximum Rate, the Carry-over Amount may also be includable in gross income in the year in which the Carry-over Amount begins to accrue. In such event, an owner should consult its own tax advisor to determine the proper treatment of such Carry-over Amount. The interest on the Carry-over Amount will be includable in an owner's gross income as ordinary interest income in the same manner as its interest at the Auction Rate.

**Backup Withholding.** Under Section 3406 of the Code, an owner of the Series 2005 Taxable Bonds may, under certain circumstances, be subject to "backup withholding" on payments of current or accrued interest on the Series 2005 Taxable Bonds. This withholding applies if the owner of the Series 2005 Taxable Bonds: (a) fails to furnish to the appropriate party such owner's social security number or other taxpayer identification number ("TIN"); (b) furnishes the Trustee an incorrect TIN; (c) fails to properly report interest or dividends; or (d) under certain circumstances, fails to provide such owner's securities broker with a certified statement, signed under penalty of perjury that the TIN provided is correct and that such owner is not subject to backup withholding. The withholding rate expressed as a percentage of the reportable payments, which include interest payments, is 28% for tax years through 2010 and 31% for tax years 2011 and thereafter.

Backup withholding will not apply, however, with respect to payments made to certain owners of the Series 2005 Taxable Bonds. Owners of the Series 2005 Taxable Bonds should consult their tax advisors regarding their qualification for such exemption from withholding and the procedure for obtaining such an exemption.

**Withholding on Payments to Nonresident Alien Individuals and Foreign Corporations.** Under Sections 1441 and 1442 of the Code, nonresident alien individuals and foreign corporations are generally subject to withholding at the rate of 30% on periodic income items arising from sources within the United States, provided such income is not effectively connected with the conduct of a United State business. Assuming the interest received by the beneficial owner of the Series 2005 Taxable Bonds is not treated as effectively connected income within the meaning of Section 864 of the Code, such interest will be subject to 30% withholding, or any owner rate specified in an income tax treaty, unless such income is treated as portfolio interest. Assuming the Series 2005 Taxable Bonds are indebtedness of the Corporation; interest will be treated as portfolio interest if (a) the owner provides a statement to the Trustee certifying, under penalty of perjury, that such owner is not a United States person

and providing the name and address of the owner; (b) such interest is treated as not effectively connected with the owner's United States trade or business; (c) interest payments are not made to a person within a foreign country which the Service has included on a list of countries having provisions inadequate to prevent United States tax evasion; (d) interest payable with respect to the Series 2005 Taxable Bonds is not deemed contingent interest within the meaning of the portfolio debt provision; and (e) the owner claiming the portfolio interest exemption is not deemed to be a foreign bank that acquired the Series 2005 Taxable Bonds pursuant to an extension of credit entered into in the ordinary course of its banking business.

Assuming payments on the Series 2005 Taxable Bonds are treated as portfolio interest within the meaning of Sections 871 and 881 of the Code, then no backup withholding is required with respect to owners who have furnished Form W-8BEN (or a substitute form), provided neither the Corporation nor the Trustee has actual knowledge that such person is a United States person.

***Final Withholding Regulations.*** In 1997, the Treasury Department issued final regulations (the "Final Withholding Regulations") that make certain modifications to the withholding rules described in the preceding two sections as they generally relate to non-U.S. owners. The Final Withholding Regulations unify certain requirements of payees and withholding agents and modify certain reliance standards. The Final Withholding Regulations generally are effective for payments made after December 31, 2000, subject to certain transition rules. Prospective non-U.S. owners should consult their tax advisors to determine the effect the Final Withholding Regulations may have on their particular circumstance.

***Unrelated Business Taxable Income.*** Entities otherwise exempt from federal income tax under Section 501 of the Code will be subject to tax on their income derived from an unrelated trade or business. Under Section 512(d) of the Code, in general, interest may be excluded from the calculation of unrelated business taxable income. Based upon the foregoing and assuming that an owner does not incur acquisition indebtedness within the meaning of Section 514(c) of the Code in connection with its purchase of the Series 2005 Taxable Bonds, the interest on such Series 2005 Taxable Bonds may be excluded from the calculation of unrelated business taxable income by tax-exempt owners.

***ERISA.*** The Employees Retirement Income Security Act of 1974, as amended ("ERISA"), and the Code generally prohibit certain transactions between a qualified employee benefit plan under ERISA or tax qualified retirement plans and individual retirement accounts under the Code (collectively, the "Plans") and persons who, with respect to a Plan, are fiduciaries or other "parties in interest" within the meaning of ERISA or "disqualified persons" within the meaning of the Code. All fiduciaries of Plans, in consultation with their advisors, should carefully consider the impact of ERISA and the Code on an investment in any Series 2005 Taxable Bonds.

***Changes in Federal Tax Law.*** From time to time, there are legislative proposals in the Congress that, if enacted, could alter or amend the federal tax matters referred to above or adversely affect the market value of the Series 2005 Taxable Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether if enacted it would apply to bonds issued prior to enactment. Purchasers of the Series 2005 Taxable Bonds should consult their tax advisors regarding any pending or proposed tax legislation. The opinions expressed by Bond Counsel are based upon existing legislation as of the date of issuance and delivery of the Series 2005 Taxable Bonds and Bond Counsel has expressed no opinion as of any date subsequent thereto or with respect to any pending legislation.

**The foregoing discussion of certain federal income tax consequences is for general information only and is not tax advice. Accordingly, each prospective owner of Series 2005 Taxable Bonds should consult such prospective owner's own tax advisor with respect to the tax consequences to such prospective owners, including the tax consequences under the state, local, foreign and other tax laws, of the acquisition, ownership and disposition of Series 2005 Taxable Bonds.**

## ERISA CONSIDERATIONS

The Employee Retirement Income Security Act of 1974, as amended (“ERISA”), imposes certain fiduciary obligations and prohibited transaction restrictions on employee pension and welfare benefit plans subject to ERISA (“ERISA Plans”). Section 4975 of the Code imposes substantially similar prohibited transaction restrictions on certain employee benefit plans, including tax-qualified retirement plans described in Section 401(a) of the Code (“Qualified Retirement Plans”) and on individual retirement accounts and annuities described in Sections 408 (a) and (b) of the Code (“IRAs,” collectively, with Qualified Retirement Plans, “Tax-Favored Plans”). Certain employee benefit plans, such as governmental plans (as defined in Section 3(32) of ERISA), and, if no election has been made under Section 410(d) of the Code, church plans (as defined in Section 3(33) of ERISA) (“Non-ERISA Plans”), are not subject to the requirements set forth in ERISA or the prohibited transaction restrictions under Section 4975 of the Code. Accordingly, the assets of such Non-ERISA Plans may be invested in the 2005 Bonds without regard to the ERISA or Code considerations described below, provided that such investment is not otherwise subject to the provisions of other applicable federal and state law (“Similar Laws”). Any governmental plan or church plan that is qualified under Section 401(a) and exempt from taxation under Section 501(a) of the Code is, nevertheless, subject to the prohibited transaction rules set forth in Section 503 of the Code.

In addition to the imposition of general fiduciary requirements, including those of investment prudence and diversification and the requirement that an ERISA Plan’s investment of its assets be made in accordance with the documents governing such ERISA Plan, Section 406 of ERISA and Section 4975 of the Code prohibit a broad range of transactions involving assets of ERISA Plans and Tax-Favored Plans (“Plan” or collectively “Plans”) and entities whose underlying assets include “plan assets” by reason of Plans investing in such entities with persons (“Parties in Interest” or “Disqualified Persons” as such terms are defined in ERISA and the Code, respectively) who have certain specified relationships to the Plans, unless a statutory, class or administrative exemption is available. Parties in Interest or Disqualified Persons that participate in a prohibited transaction may be subject to a penalty (or an excise tax) imposed pursuant to Section 502(i) of ERISA or Section 4975 of the Code unless a statutory or administrative exemption is available. Section 502(l) of ERISA requires the Secretary of the U.S. Department of Labor (the “DOL”) to assess a civil penalty against a fiduciary who violates any fiduciary responsibility under ERISA or commits any other violation of part 4 of Title I of ERISA or any other person who knowingly participates in such breach or violation. If the investment constitutes a prohibited transaction under Section 408(e) of the Code, the IRA will lose its tax-exempt status.

The investment in a security by a Plan may, in certain circumstances, be deemed to include an investment in the assets of the entity issuing such security, such as the Corporation. Certain transactions involving the purchase, holding or transfer of 2005 Bonds may be deemed to constitute prohibited transactions if assets of the Corporation are deemed to be assets of a Plan. These concepts are discussed in greater detail below.

### Plan Assets Regulation

The DOL has promulgated a regulation set forth at 29 C.F.R. § 2510.3-101 (the “Plan Assets Regulation”) concerning whether or not the assets of an ERISA Plan would be deemed to include an interest in the underlying assets of an entity (such as the Corporation) for purposes of the general fiduciary responsibility provisions of ERISA and for the prohibited transaction provisions of ERISA and Section 4975 of the Code, when a Plan acquires an “equity interest” (such as a 2005 Bond) in such entity. Depending upon a number of factors set forth in the Plan Assets Regulation, “plan assets” may be deemed to include either a Plan’s interest in the assets of an entity (such as the Corporation) in which it holds an equity interest or merely to include its interest in the instrument evidencing such equity interest (such as a 2005 Bond). For purposes of this section, the terms “plan assets” (“Plan Assets”) and the “assets of a Plan” have the meaning specified in the Plan Asset Regulation and include an undivided interest in the underlying interest of an entity which holds Plan Assets by reason of a Plan’s investment therein (a “Plan Asset Entity”).

Under the Plan Assets Regulation, the assets of the Corporation would be treated as Plan Assets if a Plan acquires an equity interest in the Corporation and none of the exceptions contained in the Plan Assets Regulation are applicable. An equity interest is defined under the Plan Assets Regulation as an interest in an entity other than an instrument which is treated as indebtedness under applicable local law and which has no substantial equity features.

If the 2005 Bonds are treated as having substantial equity features, a Plan or a Plan Asset Entity that purchases 2005 Bonds could be treated as having acquired a direct interest in the Corporation. In that event, the purchase, holding, transfer or resale of the 2005 Bonds could result in a transaction that is prohibited under ERISA or the Code.

The Plan Assets Regulation provides an exemption from “plan asset” treatment for securities issued by an entity if such securities are debt securities under applicable state law with no “substantial equity features.” While not free from doubt, on the basis of the 2005 Bonds as described herein, it appears that the 2005 Bonds should be treated as debt without substantial equity features for purposes of the Plan Assets Regulation.

In the event that the 2005 Bonds cannot be treated as indebtedness for purposes of ERISA, under an exception to the Plan Assets Regulation, the assets of a Plan will not include an interest in the assets of an entity, the equity interests of which are acquired by the Plan, if at no time do Plans in the aggregate own 25% or more of the value of any class of equity interests in such entity, as calculated under the Plan Assets Regulation. Because the availability of this exception depends upon the identity of the holders of the 2005 Bonds at any time, there can be no assurance that the 2005 Bonds will qualify for this exception and that the Corporation’s assets will not constitute a Plan Asset subject to ERISA’s fiduciary obligations and responsibilities. Therefore, neither a Plan nor a Plan Asset Entity should acquire or hold 2005 Bonds in reliance upon the availability of any exception under the Plan Assets Regulation.

### **Prohibited Transactions**

The acquisition or holding of 2005 Bonds by or on behalf of a Plan could give rise to a prohibited transaction if the Corporation or any of its respective affiliates is or becomes a Party in Interest or Disqualified Person with respect to such Plan, or in the event that a 2005 Bond is purchased in the secondary market by a Plan from a Party in Interest or Disqualified Person with respect to such Plan. There can be no assurance that the Corporation or any of its respective affiliates will not be or become a Party in Interest or a Disqualified Person with respect to a Plan that acquires 2005 Bonds. Any such prohibited transaction could be treated as exempt under ERISA and the Code if the 2005 Bonds were acquired pursuant to and in accordance with one or more statutory exemptions, individual administrative exemptions or “class exemptions” issued by the DOL. Such class exemptions include, for example, Prohibited Transaction Class Exemption (“PTCE”) 75-1 (an exemption for certain transactions involving employee benefit plans and broker dealers, reporting dealers and banks), PTCE 84-14 (an exemption for certain transactions determined by an independent qualified professional asset manager), PTCE 90-1 (an exemption for certain transactions involving insurance company pooled separate accounts), PTCE 91-38 (an exemption for certain transactions involving bank collective investment funds), PTCE 95-60 (an exemption for certain transactions involving an insurance company’s general account) and PTCE 96-23 (an exemption for certain transactions determined by a qualifying in-house asset manager).

The Underwriter, the Trustee, the Servicer, the Auction Agent or their affiliates may be the sponsor of, or investment advisor with respect to, one or more Plans. Because these parties may receive certain benefits in connection with the sale or holding of 2005 Bonds, the purchase of 2005 Bonds using plan assets over which any of these parties or their affiliates has investment authority might be deemed to be a violation of a provision of Title I of ERISA or Section 4975 of the Code. Accordingly, 2005 Bonds may not be purchased using the assets of any Plan if any of the Underwriter, the Trustee, the Servicer, the Auction Agent or their affiliates has investment authority for those assets, or is an employer maintaining or contributing to the plan, unless an applicable prohibited transaction exemption is available to cover such purchase.

### **Purchaser’s/Transferee’s Representations and Warranties**

Each purchaser and each transferee of a 2005 Bond shall be deemed to represent and warrant that (1)(a) it is not a Plan and is not acquiring the 2005 Bond directly or indirectly for, or on behalf of, a Plan or with Plan Assets, Plan Asset Entity or any entity whose underlying assets are deemed to be plan assets of such Plan or (b) the acquisition and holding of the 2005 Bonds by or on behalf of, or with Plan Assets of, any Plan, Plan Asset Entity or any entity whose underlying assets are deemed to be Plan Assets of such Plan is permissible under applicable law, will not result in any non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or Similar Law, and will not subject the Corporation to any obligation not affirmatively undertaken in writing thereby.

## **Consultation with Counsel**

Any Plan fiduciary or other investor of Plan Assets considering whether to acquire or hold 2005 Bonds on behalf of or with Plan Assets of any Plan or Plan Asset Entity, and any insurance company that proposes to acquire or hold 2005 Bonds, should consult with its counsel with respect to the potential applicability of the fiduciary responsibility provisions of ERISA and the prohibited transaction provisions of Section 406 of ERISA and Section 4975 of the Code with respect to the proposed investment and the availability of any prohibited transaction exemption. A fiduciary with respect to a Non-ERISA Plan which is a Qualified Retirement Plan or a Tax Favored Plan that proposes to acquire or hold 2005 Bonds should consult with counsel with respect to the applicable federal, state and local laws.

## **LEGALITY FOR INVESTMENT**

Subject to any federal requirements or other applicable limitations, the statutes of the Commonwealth provide that obligations of the Corporation such as the 2005 Bonds are securities in which all public officers and public bodies of the Commonwealth and its political subdivisions all insurance companies, trust companies, banking associations, investment companies, executors, administrators, trustees and other fiduciaries may properly and legally invest funds, including capital in their control or belonging to them.

## **ABSENCE OF MATERIAL LITIGATION**

There is no controversy or litigation of any nature pending or threatened to restrain or enjoin issuance, sale, execution or delivery of the 2005 Bonds, or in any way contesting or affecting the validity of the 2005 Bonds, any proceedings of the Corporation taken with respect to the issuance or sale thereof; and as of the date hereof, there is no litigation pending, or threatened that would materially adversely affect the pledge or application of any moneys or security provided for the payment of the 2005 Bonds or the powers of the Corporation.

## **APPROVAL OF LEGALITY**

Certain legal matters in connection with the 2005 Bonds are to be passed upon by Kutak Rock LLP, Bond Counsel. Certain legal matters are to be passed upon for the Underwriter by its counsel, Krieg DeVault LLP. The opinions of Bond Counsel to the Corporation to be delivered on the applicable dates of issuance of the 2005 Bonds are substantially in the forms attached to this Official Statement as Appendix D and Appendix E.

## **RATINGS**

Standard and Poor's Ratings Service is expected to assign its municipal bond rating of "AAA" to the Series 2005A Bonds and "A" to the Series 2005B-1 Bonds. Fitch, Inc. is expected to assign its municipal bond rating of "AAA" to the Series 2005A Bonds and "A" to the Series 2005B-1 Bonds. Such ratings reflects only the view of the respective Rating Agency and an explanation of the significance of such ratings can only be obtained from the respective Rating Agency. There is no assurance that such ratings will be continued for any given period of time or that they will not be revised downward or withdrawn entirely if, in the judgment of the respective Rating Agency, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect upon the market price or the marketability of the 2005 Bonds. The Rating Agencies do not evaluate, and the ratings on the 2005 Bonds do not address, the likelihood of payment of any Carry-Over Amounts.

## **UNDERWRITING**

The 2005 Bonds will be purchased by UBS Financial Services Inc. at a purchase price equal to \$398,920,000, which is equal to the aggregate face amount of the 2005 Bonds less an underwriting discount of \$1,080,000.

## INDEPENDENT ACCOUNTANTS

The Corporation's financial statements as of June 30, 2004 and for the years then ended, included in this Official Statement, have been audited by Strothman & Company, PSC, independent accountants, as stated in their report appearing in APPENDIX C hereto.

## MISCELLANEOUS

*Since the 2005 Bonds are special and limited obligations of the Corporation, secured by and payable solely from specific revenues, funds and assets of the Corporation pledged under the Indenture, the overall financial status of the Corporation does not indicate and does not necessarily affect whether such revenues and other amounts will be available under the Indenture to pay the principal of and interest on the 2005 Bonds. The Corporation is not obligated to pay any amounts in respect of principal and/or interest on the 2005 Bonds from any moneys legally available to the Corporation for its general purposes other than those expressly pledged.*

The information set forth in this Official Statement relating to the Corporation and KHEAA was obtained from the records of the Corporation and KHEAA and from other sources considered reliable.

All quotations from, and summaries and explanations of, the Higher Education Act, the Corporation Act and the Indenture contained herein do not purport to be complete and reference is made to such laws and documents for full and complete statements of their provisions. The Appendices attached hereto are part of this Official Statement. Copies of the Corporation Act and the Indenture may be obtained upon written request directed to the Corporation, P.O. Box 24266, Louisville, Kentucky 40224-0266.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact.

This Official Statement is not to be construed as a contract or agreement between the Corporation and the purchasers or owners of any Bonds.

## KENTUCKY HIGHER EDUCATION STUDENT LOAN CORPORATION

By: /s/ Joe L. McCormick

Joe L. McCormick, Executive Director  
and Chief Executive Officer

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact.

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**KENTUCKY HIGHER EDUCATION  
STUDENT LOAN CORPORATION**

By:  Joe L. McCormick

Joe L. McCormick, Executive Director  
and Chief Executive Officer

## **SUMMARY OF CERTAIN PROVISIONS OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM**

The Higher Education Act provides for several different educational loan programs (collectively, “Federal Family Education Loans” or “FFELP Loans” and, the program with respect thereto, the “Federal Family Education Loan Program”). Under these programs, state agencies or private nonprofit corporations administering student loan insurance programs (“Guarantee Agencies” or “Guarantors”) are reimbursed for portions of losses sustained in connection with FFELP Loans, and holders of certain loans made under such programs are paid subsidies for owning such loans. Certain provisions of the Federal Family Education Loan Program are summarized below.

The Higher Education Act has been subject to frequent amendments, including several amendments that have changed the terms of and eligibility requirements for the FFELP Loans. Generally, this Official Statement describes only the provisions of the Federal Family Education Loan Program that apply to loans made on or after July 1, 1998. The Higher Education Act is currently subject to reauthorization. During that process, which is ongoing, proposed amendments to the Higher Education Act are more commonplace and a number of proposals have been introduced in Congress. As part of such process, Congress passed, and the President signed into law, the Higher Education Extension Act of 2004, which temporarily extends the programs under the Higher Education Act, including the FFEL Program, through federal fiscal year 2005. There can be no assurance that the Higher Education Act, or other relevant law or regulations, will not be changed in a manner that could adversely impact the Corporation’s student loan finance program. See “CERTAIN RISK FACTORS – Changes in the Higher Education Act or Other Relevant Law; Federal Direct Student Loan Program – Future Changes in Relevant Law” in the body of this Official Statement. The following summary of the Federal Family Education Loan Program as established by the Higher Education Act does not purport to be comprehensive or definitive and is qualified in its entirety by reference to the text of the Higher Education Act and the regulations thereunder.

### **FEDERAL FAMILY EDUCATION LOANS**

#### **General**

Several types of loans are currently authorized as Federal Family Education Loans pursuant to the Federal Family Education Loan Program. These include: (i) loans to students meeting certain financial needs tests with respect to which the federal government makes interest payments available to reduce student interest cost during periods of enrollment (“Subsidized Stafford Loans”); (ii) loans to students made without regard to financial need with respect to which the federal government does not make such interest payments (“Unsubsidized Stafford Loans” and, collectively with Subsidized Stafford Loans, “Stafford Loans”); (iii) loans to parents of dependent students (“PLUS Loans”); and (iv) loans available to borrowers with certain existing federal educational loans to consolidate repayment of such loans (“Consolidation Loans”).

Generally, a loan may be made only to a United States citizen or national or otherwise eligible individual under federal regulations who (i) has been accepted for enrollment or is enrolled and is maintaining satisfactory progress at an eligible institution, (ii) is carrying at least one-half of the normal full-time academic workload for the course of study the student is pursuing, as determined by such institution, (iii) has agreed to notify promptly the holder of the loan of any address change, and (iv) meets the applicable “need” requirements. Eligible institutions include higher educational institutions and vocational schools that comply with certain federal regulations. With certain exceptions, an institution with a cohort (composite) default rate that is higher than certain specified thresholds in the Higher Education Act is not an eligible institution.

#### **Subsidized Stafford Loans**

The Higher Education Act provides for federal (i) insurance or reinsurance of eligible Subsidized Stafford Loans, (ii) interest subsidy payments for borrowers remitted to eligible lenders with respect to certain eligible Subsidized Stafford Loans, and (iii) special allowance payments representing an additional subsidy paid by the



Secretary of the U.S. Department of Education (the “Secretary”) to such holders of eligible Subsidized Stafford Loans.

Subsidized Stafford Loans are eligible for reinsurance under the Higher Education Act if the eligible student to whom the loan is made has been accepted or is enrolled in good standing at an eligible institution of higher education or vocational school and is carrying at least one-half the normal full-time workload at that institution. In connection with eligible Subsidized Stafford Loans there are limits as to the maximum amount which may be borrowed for an academic year and in the aggregate for both undergraduate and graduate/professional study. The Secretary has discretion to raise these limits to accommodate students undertaking specialized training requiring exceptionally high costs of education.

Subject to these limits, Subsidized Stafford Loans are available to borrowers in amounts not exceeding their unmet need for financing as provided in the Higher Education Act. Provisions addressing the implementation of need analysis and the relationship between unmet need for financing and the availability of Subsidized Stafford Loan Program funding have been the subject of frequent and extensive amendment in recent years. There can be no assurance that further amendment to such provisions will not materially affect the availability of Subsidized Stafford Loan funding to borrowers or the availability of Subsidized Stafford Loans for secondary market acquisition.

### **Unsubsidized Stafford Loans**

Unsubsidized Stafford Loans are available for students who do not qualify for Subsidized Stafford Loans due to parental and/or student income or assets in excess of permitted amounts. In other respects, the general requirements for Unsubsidized Stafford Loans are essentially the same as those for Subsidized Stafford Loans. The interest rate, the annual loan limits, the loan fee requirements and the special allowance payment provisions of the Unsubsidized Stafford Loans are the same as the Subsidized Stafford Loans. However, the terms of the Unsubsidized Stafford Loans differ materially from Subsidized Stafford Loans in that the Secretary does not make interest subsidy payments and the loan limitations are determined without respect to the expected family contribution. The borrower is required to pay interest from the time such loan is disbursed or capitalize the interest until repayment begins.

### **PLUS Loan Program**

The Higher Education Act authorizes PLUS Loans to be made to parents of eligible dependent students. Only parents who do not have an adverse credit history are eligible for PLUS Loans. The basic provisions applicable to PLUS Loans are similar to those of Stafford Loans with respect to the involvement of Guarantee Agencies and the Secretary in providing federal reinsurance on the loans. However, PLUS Loans differ significantly from Subsidized Stafford Loans, particularly because federal interest subsidy payments are not available under the PLUS Program and special allowance payments are more restricted.

### **The Consolidation Loan Program**

The Higher Education Act authorizes a program under which certain borrowers may consolidate their various student loans into a single loan insured and reinsured on a basis similar to Subsidized Stafford Loans. Consolidation Loans may be made in an amount sufficient to pay outstanding principal, unpaid interest and late charges on certain federally insured or reinsured Student Loans incurred under and pursuant to the Federal Family Education Loan Program (other than PLUS Loans made to “parent borrowers”) selected by the borrower, as well as loans made pursuant to the Perkins Loan Program, the Health Professional Student Loan Programs and the William D. Ford Federal Direct Loan Program (the “Direct Loan Program”). The borrowers may be either in repayment status or in a grace period preceding repayment. Delinquent or defaulted borrowers are eligible to obtain Consolidation Loans if they agree to re-enter repayment through loan consolidation. Borrowers may add additional loans to a Consolidation Loan during the 180-day period following origination of the Consolidation Loan. Further, a married couple who agrees to be jointly and severally liable is to be treated as one borrower for purposes of loan consolidation eligibility. A Consolidation Loan will be federally insured or reinsured only if such loan is made in compliance with requirements of the Higher Education Act.

In the event that a borrower is unable to obtain a Consolidation Loan with income sensitive repayment terms acceptable to the borrower from the holders of the borrower's outstanding loans (that are selected for consolidation), or from any other eligible lender, the Higher Education Act authorizes the Secretary to offer the borrower a Direct Consolidation Loan with income contingent terms under the Direct Loan Program. Such direct Consolidation Loans shall be repaid either pursuant to income contingent repayment or any other repayment provision under the authorizing section of the Higher Education Act.

### **Interest Rates**

Subsidized and Unsubsidized Stafford Loans made after October 1, 1998 which are in in-school, grace and deferment periods bear interest at a rate equivalent to the 91-day T-Bill rate plus 1.7 percent, with a maximum rate of 8.25 percent. The Higher Education Act currently provides that for Subsidized and Unsubsidized Stafford Loans made on or after July 1, 2006, the interest rate will be equal to 6.8 percent per annum and for PLUS Loans made on or after July 1, 2006, the interest rate will be equal to 7.9 percent per annum. Subsidized Stafford Loans and Unsubsidized Stafford Loans in all other periods bear interest at a rate equivalent to the 91-day T-Bill rate plus 2.3 percent, with a maximum rate of 8.25 percent. The rate is adjusted annually on July 1. PLUS Loans bear interest at a rate equivalent to the 91-day T-Bill rate plus 3.1 percent, with a maximum rate of 9 percent. Consolidation Loans for which the application was received by an eligible lender on or after October 1, 1998 bear interest at a fixed rate equal to the weighted average of the interest rates on the loans consolidated, rounded upward to the nearest one-eighth of one percent, with a maximum rate of 8.25 percent.

### **Loan Limits**

The Higher Education Act requires that Subsidized and Unsubsidized Stafford Loans made to cover multiple enrollment periods, such as a semester, trimester or quarter be disbursed by eligible lenders in at least two separate disbursements. A Stafford Loan borrower may receive a subsidized loan, an unsubsidized loan, or a combination of both for an academic period. Generally, the maximum amount of a Stafford Loan for an academic year cannot exceed \$2,625 for the first year of undergraduate study, \$3,500 for the second year of undergraduate study and \$5,500 for the remainder of undergraduate study. The aggregate limit for undergraduate study is \$23,000 (excluding PLUS Loans). Independent undergraduate students may receive an additional Unsubsidized Stafford Loan of up to \$4,000 per academic year, with an aggregate maximum of \$46,000. The maximum amount of the loans for an academic year for graduate students is \$8,500, and independent students may borrow an additional Unsubsidized Stafford Loan up to \$10,000 per academic year. The Secretary has discretion to raise these limits by regulation to accommodate highly specialized or exceptionally expensive courses of study. For example, certain medical students may now borrow up to \$46,000 per academic year, with a maximum aggregate limit of \$189,125.

The total amount of all PLUS Loans that parents may borrow on behalf of each dependent student for any academic year may not exceed the student's cost of attendance minus other estimated financial assistance for that student.

### **Repayment**

**General.** Repayment of principal on a Stafford Loan does not commence while a student remains a qualified student, but generally begins not more than six months after the borrower ceases to pursue at least a half-time course of study (the six month period is the "Grace Period"). Grace Periods may be waived by borrowers. Repayment of interest on an Unsubsidized Stafford Loan begins immediately upon disbursement of the loan, however the lender may capitalize the interest until repayment of principal is scheduled to begin. Except for certain borrowers as described below, each loan generally must be scheduled for repayment over a period of not more than ten years after the commencement of repayment. The Higher Education Act currently requires minimum annual payments of \$600, including principal and interest, unless the borrower and the lender agree to lesser payments; in instances in which a borrower and spouse both have such loans outstanding, the total combined payments for such a couple may not be less than \$600 per year. Regulations of the Secretary require lenders to offer standard, graduated or income-sensitive repayment schedules to borrowers. Use of income sensitive repayment plans may extend the ten-year maximum term for up to three years.

PLUS Loans enter repayment on the date the last disbursement is made on the loan. Interest accrues and is due and payable from the date of the first disbursement of the loan. The first payment is due within 60 days after the loan is fully disbursed. Repayment plans are the same as in the Subsidized and Unsubsidized Stafford Loan Program.

Consolidation Loans enter repayment on the date the loan is disbursed. The first payment is due within 60 days after that date. Consolidation Loans must be repaid during a period agreed to by the borrower and lender, subject to maximum repayment periods which vary depending upon the principal amount of the borrower's outstanding student loans (but no longer than 30 years).

FFEL Program borrowers who accumulate outstanding FFEL Loans totaling more than \$30,000 may receive an extended repayment plan, with a fixed or graduated payment amount paid over a longer period of time, not to exceed 25 years. A borrower may accelerate principal payments at any time without penalty. Once a repayment plan is established, the borrower may annually change the selection of the plan.

***Deferment and Forbearance Periods.*** No principal repayments need to be made during certain periods prescribed by the Higher Education Act ("Deferment Periods") but interest accrues and must be paid. Generally, Deferment Periods include periods (a) when the borrower has returned to an eligible educational institution on a half-time basis or is pursuing studies pursuant to an approved graduate fellowship or rehabilitation training program, (b) not exceeding three years while the borrower is seeking and unable to find full-time employment, and (c) not in excess of three years for any reason which the lender determines, in accordance with regulations, has caused or will cause the borrower economic hardship. Deferment periods extend the maximum repayment periods. Under certain circumstances, a lender may also allow periods of forbearance ("Forbearance") during which the borrower may defer payments because of temporary financial hardship. The Higher Education Act specifies certain periods during which Forbearance is mandatory. Mandatory Forbearance periods exist when the borrower is impacted by a national emergency, military mobilization, or when the geographical area in which the borrower resides or works is declared a disaster area by certain officials. Other mandatory periods include periods during which the borrower is (a) participating in a medical or dental residency and is not eligible for deferment; (b) serving in a qualified medical or dental internship program or certain national service programs; or (c) determined to have a debt burden of certain federal loans equal to or exceeding 20% of the borrower's gross income. In other circumstances, Forbearance may be granted at the lender's option. Forbearance also extends the maximum repayment periods.

#### **Master Promissory Note**

Since July of 2000, all lenders are required to use a master promissory note (the "MPN") for new Stafford Loans. The MPN permits a borrower to obtain future loans without the necessity of executing a new promissory note. Borrowers are not, however, required to obtain all of their future loans from their original lender, but if a borrower obtains a loan from a lender which does not presently hold a MPN for that borrower, that borrower will be required to execute a new MPN. A single borrower may have several MPNs evidencing loans to multiple lenders. If multiple loans have been advanced pursuant to a single MPN, any or all of those loans may be individually sold by the holder of the MPN to one or more different secondary market purchasers.

#### **Interest Subsidy Payments**

The Secretary is to pay interest on Subsidized Stafford Loans while the student is a qualified student, during a Grace Period or during certain Deferment Periods. In addition, those portions of Consolidation Loans that repay Subsidized Stafford Loans or similar subsidized loans made under the Direct Loan Program are eligible for Interest Subsidy Payments. The Secretary is required to make interest subsidy payments to the holder of Subsidized Stafford Loans in the amount of interest accruing on the unpaid balance thereof prior to the commencement of repayment or during any Deferment Period. The Higher Education Act provides that the holder of an eligible Subsidized Stafford Loan, or the eligible portions of Consolidation Loans, shall be deemed to have a contractual right against the United States to receive interest subsidy payments in accordance with its provisions.

## Special Allowance Payments

The Higher Education Act provides for Special Allowance Payments to be made by the Secretary to eligible lenders. The rates for Special Allowance Payments are based on formulae that differ according to the type of loan, the date the loan was first disbursed, the interest rate and the type of funds used to finance such loan (tax-exempt or taxable). Loans made or purchased with funds obtained by the holder from the issuance of tax exempt obligations issued prior to October 1, 1993 have an effective minimum rate of return of 9.5%. The Special Allowance Payments payable with respect to eligible loans acquired or funded with the proceeds of tax-exempt obligations issued after September 30, 1993 are equal to those paid to other lenders.

Subject to the foregoing, the formulae for special allowance payment rates for Stafford and Unsubsidized Stafford Loans are summarized in the following chart. The term "T-Bill" as used in this table and the following table, means the average 91-day Treasury bill rate calculated as a "bond equivalent rate" in the manner applied by the Secretary as referred to in Section 438 of the Higher Education Act. The term "3 Month Commercial Paper Rate" means the 90-day commercial paper index calculated quarterly and based on an average of the daily 90-day commercial paper rates reported in the Federal Reserve's Statistical Release H-15.

<u>Date of Loans</u>	<u>Annualized SAP Rate</u>
On or after October 1, 1992	T-Bill Rate less Applicable Interest Rate + 3.1%
On or after July 1, 1995	T-Bill Rate less Applicable Interest Rate + 3.1% <sup>(1)</sup>
On or after July 1, 1998	T-Bill Rate less Applicable Interest Rate + 2.8% <sup>(2)</sup>
On or after January 1, 2000	3 Month Commercial Paper Rate less Applicable Interest Rate + 2.34% <sup>(3)</sup>

<sup>(1)</sup> Substitute 2.5% in this formula while such loans are in the in-school or grace period.

<sup>(2)</sup> Substitute 2.2% in this formula while such loans are in the in-school or grace period.

<sup>(3)</sup> Substitute 1.74% in this formula while such loans are in the in-school or grace period.

The formula for Special Allowance Payment rates for PLUS and Consolidation Loans are as follows:

<u>Date of Loans</u>	<u>Annualized SAP Rate</u>
On or after October 1, 1992	T-Bill Rate less Applicable Interest Rate + 3.1%
On or after January 1, 2000	3 Month Commercial Paper Rate less Applicable Interest Rate + 2.64%

Special Allowance Payments are generally payable, with respect to variable rate FFELP Loans to which a maximum borrower interest rate applies, only when the maximum borrower interest rate is in effect. The Secretary offsets Interest Subsidy Payments and Special Allowance Payments by the amount of Origination Fees and Lender Loan Fees described in the following section.

The Higher Education Act provides that a holder of a qualifying loan who is entitled to receive Special Allowance Payments has a contractual right against the United States to receive those payments during the life of the loan. Receipt of Special Allowance Payments, however, is conditioned on the eligibility of the loan for federal insurance or reinsurance benefits. Such eligibility may be lost due to violations of federal regulations or Guarantee Agency requirements.

## Loan Fees

**Insurance Premium.** A Guarantee Agency is authorized to charge a premium, or guarantee fee, of up to 1% of the principal amount of the loan, which may be deducted proportionately from each installment of the loan. Generally, Guarantee Agencies have waived this fee since 1999.

**Origination Fee.** The lender is required to pay to the Secretary an origination fee equal to 3% of the principal amount of each Subsidized and Unsubsidized Stafford and PLUS Loan. The lender may charge these fees to the borrower by deducting them proportionately from each disbursement of the loan proceeds.

***Lender Loan Fee.*** The lender of any FFEL Loan is required to pay to the Secretary an additional origination fee equal to 0.5% of the principal amount of the loan.

The Secretary collects from the lender or subsequent holder the maximum origination fee authorized (regardless of whether the lender actually charges the borrower) and the lender loan fee, either through reductions in Interest Subsidy or Special Allowance Payments or directly from the lender or holder.

***Rebate Fee on Consolidation Loans.*** The holder of any Consolidation Loan is required to pay to the Secretary a monthly fee equal to .0875% (1.05% per annum) of the principal amount plus accrued interest on the loan.

### **Education Loans Generally Not Subject to Discharge in Bankruptcy**

Under the U.S. Bankruptcy Code, educational loans are not generally dischargeable. Title 11 of the United States Code at Section 523(a)(8) provides as follows:

A discharge under Section 727, 1141, 1228(a), 1228(b), or 1328(b) of this title does not discharge an individual debtor from any debt:

(8) for an educational benefit overpayment or loan made, insured, or guaranteed by a governmental unit or made under any program funded in whole or in part by a governmental unit or a nonprofit institution, or for an obligation to repay funds received as an educational benefit, scholarship or stipend unless excepting such debt from discharge under this paragraph will impose an undue hardship on the debtor and the debtor's dependents.

## **INSURANCE AND GUARANTEES**

### **Default**

A Federal Family Education Loan is considered to be in default for purposes of the Higher Education Act when the borrower fails to make an installment payment when due, or to comply with other terms of the loan, and if the failure persists for 270 days in the case of a loan repayable in monthly installments or for 330 days in the case of a loan repayable in less frequent installments. If the loan is guaranteed by a guarantor in accordance with the provisions of the Higher Education Act, the guarantor is to pay the holder a percentage of such amount of the loss subject to reduction as described in the following paragraphs within 90 days of notification of such default.

### **Federal Insurance**

The Higher Education Act provides that, subject to compliance with such Act, the full faith and credit of the United States is pledged to the payment of insurance claims and ensures that such reimbursements are not subject to reduction. In addition, the Higher Education Act provides that if a guarantor is unable to meet its insurance obligations, holders of loans may submit insurance claims directly to the Secretary until such time as the obligations are transferred to a new guarantor capable of meeting such obligations or until a successor guarantor assumes such obligations. Federal reimbursement and insurance payments for defaulted loans are paid from the Student Loan Insurance Fund established under the Higher Education Act. The Secretary is authorized, to the extent provided in advance by appropriations acts, to issue obligations to the Secretary of the Treasury to provide funds to make such federal payments.

### **Guarantees**

***General.*** If the loan is guaranteed by a guarantor in accordance with the provisions of the Higher Education Act, the eligible lender is reimbursed by the guarantor for a statutorily-set percentage (98%) of the unpaid principal balance of the loan plus accrued unpaid interest on any loan defaulted so long as the eligible lender has properly serviced such loan. Under the Higher Education Act, the Secretary enters into a guarantee agreement and a reinsurance agreement (the "Guarantee Agreements") with each guarantor which provides for federal reimbursement for amounts paid to eligible lenders by the guarantor with respect to defaulted loans.

**Guarantee Agreements.** Pursuant to the Guarantee Agreements, the Secretary is to reimburse a guarantor for the amounts expended in connection with a claim resulting from the death, bankruptcy or total and permanent disability of a borrower, the death of a student whose parent is the borrower of a PLUS Loan, certain claims by borrowers who are unable to complete the programs in which they are enrolled due to school closure, borrowers whose borrowing eligibility was falsely certified by the eligible institution, or the amount of an unpaid refund due from the school to the lender in the event the school fails to make a required refund. Such claims are not included in calculating a guarantor's claims rate experience for federal reimbursement purposes. Generally, Education Loans are non-dischargeable in bankruptcy unless the bankruptcy court determines that the debt will impose an undue hardship on the borrower and the borrower's dependents. Further, the Secretary is to reimburse a guarantor for any amounts paid to satisfy claims not resulting from death, bankruptcy, or disability subject to reduction as described below.

The Secretary may terminate Guarantee Agreements if the Secretary determines that termination is necessary to protect the federal financial interest or to ensure the continued availability of loans to student or parent borrowers. Upon termination of such agreements, the Secretary is authorized to provide the guarantor with additional advance funds with such restrictions on the use of such funds as is determined appropriate by the Secretary, in order to meet the immediate cash needs of the guarantor, ensure the uninterrupted payment of claims, or ensure that the guarantor will make loans as the lender-of-last-resort.

If the Secretary has terminated or is seeking to terminate Guarantee Agreements, or has assumed a guarantor's functions, notwithstanding any other provision of law: (i) no state court may issue an order affecting the Secretary's actions with respect to that guarantor; (ii) any contract entered into by the guarantor with respect to the administration of the guarantor's reserve funds or assets acquired with reserve funds shall provide that the contract is terminable by the Secretary upon 30 days notice to the contracting parties if the Secretary determines that such contract includes an impermissible transfer of funds or assets or is inconsistent with the terms or purposes of the Higher Education Act; and (iii) no provision of state law shall apply to the actions of the Secretary in terminating the operations of the guarantor. Finally, notwithstanding any other provision of law, the Secretary's liability for any outstanding liabilities of a guarantor (other than outstanding student loan guarantees under the Higher Education Act), the functions of which the Secretary has assumed, shall not exceed the fair market value of the reserves of the guarantor, minus any necessary liquidation or other administrative costs.

**Reimbursement.** The amount of a reimbursement payment on defaulted loans made by the Secretary to a guarantor is subject to reduction based upon the annual claims rate of the guarantor calculated to equal the amount of federal reimbursement as a percentage of the original principal amount of originated or guaranteed loans in repayment on the last day of the prior fiscal year. The claims experience is not accumulated from year to year, but is determined solely on the basis of claims in any one federal fiscal year compared with the original principal amount of loans in repayment at the beginning of that year. The formula for reimbursement amounts is summarized below:

CLAIMS RATE	GUARANTOR REINSURANCE RATE FOR LOANS MADE PRIOR TO OCTOBER 1, 1993	GUARANTOR REINSURANCE RATE FOR LOANS MADE BETWEEN OCTOBER 1, 1993 AND SEPTEMBER 30, 1998 <sup>(1)</sup>	GUARANTOR REINSURANCE RATE FOR LOANS MADE ON OR AFTER OCTOBER 1, 1998 <sup>(1)</sup>
0% up to 5%	100%	98%	95%
5% up to 9%	100% of claims up to 5%; and 90% of claims 5% and over	98% of claims up to 5%; and 88% of claims 5% and over	95% of claims up to 5% and 85% of claims 5% and over
9% and over	100% of claims up to 5%; 90% of claims 5% up to 9%; 80% of claims 9% and over	98% of claims up to 5%; 88% of claims 5% up to 9%; 78% of claims 9% and over	95% of claims up to 5%, 85% of claims 5% up to 9%; 75% of claims 9% and over

(1) Other than student loans made pursuant to the lender-of-last resort program or student loans transferred by an insolvent guarantor as to which the amount of reinsurance is equal to 100%.

The original principal amount of loans guaranteed by a guarantor which are in repayment for purposes of computing reimbursement payments to a guarantor means the original principal amount of all loans guaranteed by a guarantor less: (i) guarantee payments on such loans, (ii) the original principal amount of such loans that have been fully repaid, and (iii) the original amount of such loans for which the first principal installment payment has not become due.

In addition, the Secretary may withhold reimbursement payments if a guarantor makes a material misrepresentation or fails to comply with the terms of its agreements with the Secretary or applicable federal law. A supplemental guarantee agreement is subject to annual renegotiation and to termination for cause by the Secretary.

Under the Guarantee Agreements, if a payment on a Federal Family Education Loan guaranteed by a guarantor is received after reimbursement by the Secretary, the Secretary is entitled to receive an equitable share of the payment. Guarantor retentions remaining after payment of the Secretary's equitable share on such collections on consolidations of defaulted loans were reduced to 18.5% from 27% effective July 1, 1997 and for other loans were reduced from 27% to 24% (23% effective October 1, 2003).

**Lender Agreements.** Pursuant to most typical agreements for guarantee between a guarantor and the originator of the loan, any eligible holder of a loan insured by such a guarantor is entitled to reimbursement from such guarantor of any proven loss incurred by the holder of the loan resulting from default, death, permanent and total disability or bankruptcy of the student borrower at the rate of 100% of such loss (or, subject to certain limitations, 98% for loans in default made on or after October 1, 1993). Guarantors generally deem default to mean a student borrower's failure to make an installment payment when due or to comply with other terms of a note or agreement under circumstances in which the holder of the loan may reasonably conclude that the student borrower no longer intends to honor the repayment obligation and for which the failure persists for 270 days in the case of a loan payable in monthly installments or for 330 days in the case of a loan payable in less frequent installments. When a loan becomes at least 60 days past due, the holder is required to request default aversion assistance from the applicable guarantor in order to attempt to cure the delinquency. When a loan becomes 240 days past due, the holder is required to make a final demand for payment of the loan by the borrower. The holder is required to continue collection efforts until the loan is 270 days past due. At the time of payment of insurance benefits, the holder must assign to the applicable guarantor all right accruing to the holder under the note evidencing the loan. The Higher Education Act prohibits a guarantor from filing a claim for reimbursement with respect to losses prior to 270 days after the loan becomes delinquent with respect to any installment thereon.

Any holder of a loan is required to exercise due care and diligence in the servicing of the loan and to utilize practices which are at least as extensive and forceful as those utilized by financial institutions in the collection of other consumer loans. If a guarantor has probable cause to believe that the holder has made misrepresentations or failed to comply with the terms of its agreement for guarantee, the guarantor may take reasonable action including withholding payments or requiring reimbursement of funds. The guarantor may also terminate the agreement for cause upon notice and hearing.

### **Guarantor Reserves**

Each guarantor is required to establish a Federal Student Loan Reserve Fund (the "Federal Fund") which, together with any earnings thereon, are deemed to be property of the United States. Each guarantor is required to deposit into the Federal Fund any reserve funds plus reinsurance payments received from the Secretary, default collections, insurance premiums, 70% of payments received as administrative cost allowance and other receipts as specified in regulations. A guarantor is authorized to transfer up to 180 days' cash expenses for normal operating expenses (other than claim payments) from the Federal Fund to the Operating Fund (described below) at any time during the first three years after establishment of the fund. The Federal Fund may be used to pay lender claims and to pay default aversion fees into the Operating Fund. A guarantor is also required to establish an operating fund (the "Operating Fund") which, except for funds transferred from the Federal Fund to meet operating expenses during the first three years after fund establishment, is the property of the guarantor. A guarantor may deposit into the Operating Fund loan processing and issuance fees equal to 0.65% of the total principal amount of loans insured

during the fiscal year, 30% of payments received after October 7, 1998 for the administrative cost allowance for loans insured prior to that date and the 24% retention of collections on defaulted loans and other receipts as specified in regulations. An Operating Fund must be used for application processing, loan disbursement, enrollment and repayment status management, default aversion, collection activities, compliance monitoring, and other student financial aid related activities.

The Higher Education Act required the Secretary to recall \$1 billion in federal reserve funds from guarantors on September 1, 2002. Each guarantor was required to transfer its equitable share of the \$1 billion to a restricted account in equal annual installments for each of the five federal fiscal years 1998 through 2002 (or in certain cases over four federal fiscal years beginning in 1999). The guarantor's required reserve ratio has been reduced from 1.1% to .25%.

The Higher Education Act provides for an additional recall of reserves from each Federal Fund, but also provides for certain minimum reserve levels which are protected from recall. The Secretary is authorized to enter into voluntary, flexible agreements with guarantors under which various statutory and regulatory provisions can be waived. In addition, under the Higher Education Act, the Secretary is prohibited from requiring the return of all of a guarantor's reserve funds unless the Secretary determines that the return of these funds is in the best interest of the operation of the FFEL program, or to ensure the proper maintenance of such guarantor's funds or assets or the orderly termination of the guarantor's operations and the liquidation of its assets. The Higher Education Act also authorizes the Secretary to direct a guarantor to: (i) return to the Secretary all or a portion of its reserve fund that the Secretary determines is not needed to pay for the guarantor's program expenses and contingent liabilities; and (ii) cease any activities involving the expenditure, use or transfer of the guarantor's reserve funds or assets which the Secretary determines is a misapplication, misuse or improper expenditure. Under current law, the Secretary is also authorized to direct a guarantor to return to the Secretary all or a portion of its reserve fund which the Secretary determines is not needed to pay for the guarantor's program expenses and contingent liabilities.



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**GLOSSARY OF TERMS AND SUMMARY OF  
CERTAIN PROVISIONS OF THE INDENTURE**

This glossary of terms consists of summaries of terms included in the Indenture of Trust dated as of August 1, 2004, as previously supplemented, and as supplemented by the Second Supplemental Indenture of Trust, dated as of September 1, 2005, each between the Corporation and the Trustee. Terms applicable to the interest on and auctions of the ARCs and the Taxable ARCs are summarized in Appendix F and H, respectively.

**GLOSSARY OF TERMS**

*“Account”* means any of the accounts created and established within any Fund by the Indenture.

*“Act”* means the Higher Education Act of 1965, as amended or supplemented from time to time, or any successor federal act and all regulations, directives, bulletins, and guidelines promulgated from time to time thereunder.

*“Additional Bonds”* means any other Bonds issued pursuant to the Indenture.

*“Additional Series 2005 Supplemental Indentures”* means, collectively, any Supplemental Indentures executed and delivered in connection with the terms hereof and of the Original Indenture in connection with the issuance and delivery of the Series 2005A-4 Bonds, the Series 2005A-5 Bonds, the Series 2005A-6 Bonds and the Series 2005A-7 Bonds.

*“Add-on Consolidation Loan”* means a Higher Education Act Eligible Loan included in the Trust Estate, the principal balance of which is added to an existing Consolidation Loan during the Add-on Period, as required by the Act.

*“Add-on Period”* means the period of 180 days after the date of origination of any Consolidation Loan.

*“Aggregate Market Value”* means on any calculation date the sum of the Values of all assets of the Trust Estate, excluding amounts required to be deposited in the Rebate Fund which have not, as of any date of calculation, yet been deposited therein as certified by the Corporation to the Trustee.

*“Alternative Student Loan”* means loans not constituting Higher Education Act Eligible Loans, HEAL Loans or Institution Loans made to finance higher education; provided, the Trustee and the Corporation shall have received a Rating Confirmation prior to the origination or acquisition of each different type of such loan.

*“Authorized Officer”* means, when used with reference to the Corporation, the Chair, Chair-Elect, Secretary-Treasurer, Assistant Secretary-Treasurer, Executive Director or Chief Financial Officer of the Corporation, and any other of its directors, officers, agents or employees duly authorized by the by-laws or by a resolution of the Corporation to act on behalf of the Corporation.

*“Board”* or *“Board of Directors”* means the Board of Directors of the Corporation.

*“Bond Counsel”* means counsel of nationally recognized standing in the field of law relating to municipal bonds selected by the Corporation.

*“Bond Payment Date”* means for any Bond, any Interest Payment Date, its Stated Maturity or the date of any other mandatory scheduled payment with respect thereto designated in a Supplemental Indenture.

*“Bond Yield”* means, with respect to any Bonds issued as Tax-Exempt Bonds, the yield on such Tax-Exempt Bonds computed in accordance with the Code.

“*Bonds*” means the Existing Bonds, the 2005 Bonds and any Additional Bonds.

“*Business Day*” means the definition of Business Day found in the Supplemental Indenture authorizing a series of Bonds.

“*Certificate of Insurance*” means any certificate or contract evidencing a Financed Higher Education Act Eligible Loan is Insured.

“*Code*” means the Internal Revenue Code of 1986, as amended from time to time. Each reference to a section of the Code is deemed to include the United States Treasury Regulations, including applicable temporary and proposed regulations, relating to such section which are applicable to the Tax-Exempt Bonds or the use of the proceeds thereof. A reference to any specific section of the Code is deemed also to be a reference to the comparable provisions of any enactment which supersedes or replaces the Code thereunder from time to time.

“*Commonwealth*” means the Commonwealth of Kentucky.

“*Computation Date*” means each date described as such in any Tax Document.

“*Consolidation Fee*” means any federal origination fee, monthly rebate fee or similar fee payable to the Department relating to the origination or ownership of Consolidation Loans.

“*Consolidation Loan*” means a Higher Education Act Eligible Loan made pursuant to Section 428C of the Act to consolidate the borrower’s obligations under various federally authorized student loan programs into a single loan, as supplemented by the addition of any related Add-on Consolidation Loan.

“*Corporation*” means the Kentucky Higher Education Student Loan Corporation, an independent de jure municipal corporation and political subdivision of the Commonwealth, created and existing under and pursuant to the Corporation Act, and any successor thereto.

“*Corporation Act*” means Sections 164A.010 to 164A.240, inclusive, of the Kentucky Revised Statutes, as amended.

“*Corporation Order*” means a written order signed in the name of the Corporation by an Authorized Officer.

“*Corporation Swap Payment*” means a payment required to be made by or on behalf of the Corporation due to a Swap Provider pursuant to a Swap Facility (including Priority Termination Payments, but excluding other Termination Payments).

“*Cost of Issuance Fund*” means the Fund by that name created in the Indenture, including any Accounts and Subaccounts created therein.

“*Date of Issuance*” means the date of original issuance and delivery of any Bonds to an Underwriter.

“*Debt Service Reserve Fund*” means the Fund by that name created in the Indenture, including any Accounts and Subaccounts created therein.

“*Debt Service Reserve Fund Requirement*” means, (a) with respect to the Existing Bonds and the 2005 Bonds, an amount equal to 0.75% of the principal amount thereof then Outstanding, or a lesser amount with a Rating Confirmation, provided, however, so long as any Bonds remain Outstanding there shall be at least \$500,000 on deposit in the Debt Service Reserve Fund, plus (b) an amount, if any, required to be on deposit in the Debt Service Reserve Fund with respect to any Additional Bonds pursuant to the Supplemental Indenture authorizing the issuance of such Additional Bonds.

“*Department*” means the United States Department of Education, an agency of the federal government.

*“Eligible Lender”* means the Corporation and any “eligible lender,” as defined in the Act, and which has received an eligible lender designation from the Secretary with respect to Higher Education Act Eligible Loans.

*“Eligible Loan”* means (a) a Higher Education Act Eligible Loan; (b) a HEAL Loan; (c) a Qualified Institution Loan; (d) an Alternative Student Loan; or (e) any other loan made to finance education that is otherwise permitted to be financed by the Corporation pursuant to its Program (provided a Rating Confirmation is received with respect thereto).

*“Event of Bankruptcy”* means (a) the Corporation shall have commenced a voluntary case or other proceeding seeking liquidation, reorganization, or other relief with respect to itself or its debts under any bankruptcy, insolvency, or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian, or other similar official of it or any substantial part of its property, or shall have made a general assignment for the benefit of creditors, or shall have declared a moratorium with respect to its debts or shall have failed generally to pay its debts as they become due, or shall have taken any action to authorize any of the foregoing; or (b) an involuntary case or other proceeding shall have been commenced against the Corporation seeking liquidation, reorganization, or other relief with respect to it or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian, or other similar official of it or any substantial part of its property provided such action or proceeding is not dismissed within 60 days.

*“Excess Interest”* means, as of the date of computation, the amount, if any, equal to the amount which, if used to forgive principal of, or interest on, Financed Eligible Loans on such date, would be necessary to cause the Portfolio Yield to be equal to or less than the Bond Yield plus one-eighth percent or such greater spread as may, in the written opinion of Bond Counsel delivered to the Corporation and the Trustee, be permitted by Treasury Regulation § 1.148-2(d)(2) (such one-eighth percent or greater spread being hereinbelow referred to as the “Permitted Spread”); in any event together with any additional amounts as shall be required by the provisions of any Tax Document or as shall otherwise be necessary, in the opinion of Bond Counsel, to prevent the Tax-Exempt Bonds from being “arbitrage bonds” within the meaning of Section 148 of the Code. All determinations of Excess Interest shall be made in accordance with the provisions of any Tax Document.

*“Favorable Opinion”* means an opinion of Bond Counsel addressed to the Corporation and the Trustee to the effect that the action proposed to be taken is authorized or permitted by the Indenture and will not adversely affect any exclusion from gross income for federal income tax purposes of interest on Tax-Exempt Bonds.

*“Financed”* or *“Financing,”* when used with respect to Eligible Loans, means or refers to (a) Eligible Loans acquired or originated by the Corporation with balances in the Loan Fund or otherwise deposited in or accounted for in the Loan Fund or otherwise constituting a part of the Trust Estate and (b) Eligible Loans substituted or exchanged for Financed Eligible Loans, but does not include Eligible Loans released from the lien of the Indenture and sold or transferred, to the extent permitted by the Indenture.

*“Fiscal Year”* means the fiscal year of the Corporation as established from time to time.

*“Fitch”* means Fitch Ratings, its successors and assigns and if such entity shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, “Fitch” will be deemed to refer to any other nationally recognized securities rating agency designated by the Corporation.

*“Funding Instrument”* means any surety bond, insurance policy, letter of credit or other similar obligation described in a Supplemental Indenture and deposited to the Debt Service Reserve Fund.

*“Funds”* means each of the Funds created pursuant to the Indenture.

*“Guarantee”* or *“Guaranteed”* means with respect to a Higher Education Act Eligible Loan, the insurance or guarantee by the Guaranty Agency pursuant to such Guaranty Agency’s Guarantee Agreement of the maximum percentage of the principal of and accrued interest on such Higher Education Act Eligible Loan allowed by the terms of the Act with respect to such Higher Education Act Eligible Loan at the time it was originated and the coverage of

such Higher Education Act Eligible Loan by the federal reimbursement contracts, providing, among other things, for reimbursement to the Guaranty Agency for payments made by it on defaulted Higher Education Act Eligible Loans insured or guaranteed by the Guaranty Agency of at least the minimum reimbursement allowed by the Act with respect to a particular Higher Education Act Eligible Loan.

*“Guarantee Agreement”* means a guaranty or lender agreement between the Corporation and any Guaranty Agency, and any amendments thereto.

*“Guaranty Agency”* means any entity authorized to guarantee student loans under the Act and with which the Corporation (and/or the Trustee) maintains a Guarantee Agreement.

*“HEAL Loan”* means any loan made to finance education that is insured by the Secretary of Health and Human Services pursuant to the Public Health Services Act; provided, the Trustee and the Corporation shall have received a Rating Confirmation prior to the origination or acquisition of such type of loan.

*“Higher Education Act Eligible Loan”* means any loan made to finance post-secondary education that is made under the Act; provided, such loan shall be Guaranteed or Insured.

*“Highest Priority Obligations”* means, (a) at any time when Senior Obligations are Outstanding, the Senior Obligations, (b) at any time when no Senior Obligations are Outstanding, the Subordinate Obligations, and (c) at any time when no Senior Obligations or Subordinate Obligations are Outstanding, the Junior-Subordinate Obligations (and any priorities as between Junior-Subordinate Obligations as shall be established by Supplemental Indentures).

*“Institution”* means an “eligible institution” as defined in the Corporation Act, which is the maker of an Institution Note and which obtains an advance of an Institution Loan from the Corporation.

*“Institution Loan”* means a loan by the Corporation to a Qualifying Institution for the purpose of funding Higher Education Act Eligible Loans or Alternative Student Loans by such institution to students or parents of students attending such institution to finance the students’ attendance at such institution.

*“Institution Note”* means the promissory note of a Qualifying Institution in favor of the Corporation evidencing Institution Loans advanced from time to time by the Corporation to such Qualifying Institution.

*“Insurance”* or *“Insured”* or *“Insuring”* means, with respect to a Higher Education Act Eligible Loan, the insuring by the Secretary (as evidenced by a Certificate of Insurance or other document or certification issued under the provisions of the Act) under the Act of 100% of the principal of and accrued interest on such Eligible Loan.

*“Interest Benefit Payment”* means an interest payment on Higher Education Act Eligible Loans received pursuant to the Act and an agreement with the federal government, or any similar payments.

*“Interest Payment Date”* means (a) with respect to the Series 2005 Tax-Exempt Bonds, the dates set forth in Appendix F, (b) with respect to the Series 2005 Taxable Bonds, the dates set forth in Appendix H, and (c) with respect to any Additional Bonds, the Interest Payment Dates specified for such Additional Bonds in the Supplemental Indenture authorizing the issuance of such Additional Bonds.

*“Investment Securities”* means any of the following to the extent permitted by law:

(a) direct obligations of, or obligations on which the timely payment of the principal of and interest on which are unconditionally and fully guaranteed by, the United States of America;

(b) interest-bearing time or demand deposits, certificates of deposit or other similar banking arrangements with a maturity of 12 months or less with any bank, trust company, national banking association or other depository institution, including those of the Trustee, provided that, at the time of deposit or purchase such depository institution has commercial paper which is rated “A-1+” by S&P and “F1+” by Fitch (if then rated by Fitch);

(c) bonds, debentures, notes or other evidences of indebtedness issued or guaranteed by any of the following agencies: Federal Farm Credit Banks, Federal Home Loan Mortgage Corporation; the Export-Import Bank of the United States; the Federal National Mortgage Association; the Student Loan Marketing Association; the Farmers Home Administration; Federal Home Loan Banks provided such obligation is rated “AAA” by S&P and Fitch; or any agency or instrumentality of the United States of America which shall be established for the purposes of acquiring the obligations of any of the foregoing or otherwise providing financing therefor;

(d) repurchase agreements and reverse repurchase agreements with a maturity of 12 months or less, other than overnight repurchase agreements and overnight reverse repurchase agreements, with banks, including the Trustee and any of its affiliates, which are members of the Federal Deposit Insurance Corporation or firms which are members of the Securities Investors Protection Corporation, in each case whose outstanding, unsecured debt securities are rated “AA-” or higher by S&P and Fitch (if then rated by Fitch), and, if commercial paper is outstanding, commercial paper which is rated “F1+” by Fitch (if then rated by Fitch) and “A-1+” by S&P;

(e) overnight repurchase agreements and overnight reverse repurchase agreements at least 101% collateralized by securities described in subparagraph (a) of this definition and with a counterparty, including the Trustee and any of its affiliates, that has senior debt rated “A” or higher by S&P and Fitch (if then rated by Fitch), and, if commercial paper is outstanding, commercial paper which is rated “F1” by Fitch (if then rated by Fitch);

(f) investment agreements or guaranteed investment contracts, which may be entered into by and among the Corporation and/or the Trustee and any bank, bank holding company, corporation or any other financial institution, including the Trustee and any of its affiliates, whose outstanding (i) commercial paper is rated “F1+” by Fitch (if then rated by Fitch) and “A-1+” by S&P for agreements or contracts with a maturity of 12 months or less; (ii) unsecured long-term debt is rated no lower than two subcategories below the highest rating on any series of Outstanding Bonds by Fitch (if then rated by Fitch) and S&P and, if commercial paper is outstanding, commercial paper which is rated “F1+” by Fitch (if then rated by Fitch) and “A-1+” by S&P for agreements or contracts with a maturity of 24 months or less, but more than 12 months, or (iii) unsecured long-term debt which is rated no lower than two subcategories below the highest rating on any series of Outstanding Bonds by S&P and Fitch (if then rated by Fitch), and, if commercial paper is outstanding, commercial paper which is rated “F1+” by Fitch (if then rated by Fitch) and “A-1+” by S&P for agreements or contracts with a maturity of more than 24 months, or, in each case, by an insurance company whose claims-paying ability is so rated;

(g) “tax exempt bonds” as defined in Section 150(a)(6) of the Code, other than “specified private activity bonds” as defined in Section 57(a)(5)(C) of the Code, that are rated in the highest category by S&P and Fitch (if then rated by Fitch) for long-term or short-term debt or shares of a so-called money market fund rated “AAAm/AAAm-G” or higher by S&P and Fitch (if then rated by Fitch), that do not constitute “investment property” within the meaning of Section 148(b)(2) of the Code, provided that the fund has all of its assets invested in obligations of such rating quality and maintains a stable one dollar net asset value per share and the shares are freely transferable on a daily basis;

(h) commercial paper, including that of the Trustee and any of its affiliates, which is rated in the single highest classification, “F1+” by Fitch (if then rated by Fitch) and “A-1+” by S&P, and which matures not more than 270 days after the date of purchase; provided, however, that not more than 20% of the Investment Securities shall be invested in any single credit;

(i) investments in a money market fund rated at least “AAAm” or “AAAm-G” by S&P and Fitch (if then rated by Fitch), including funds for which the Trustee or an affiliate thereof acts as investment advisor or provides other similar services for a fee; provided, however, that such Fitch rating, if any, shall be “AA”/“F1+” or higher for any money market fund which has the ability to maintain a stable one-dollar net asset value per share and whose shares are freely transferable on a daily basis; and

(j) any other investment with a Rating Confirmation from each Rating Agency.

*“ISDA Master Agreement”* means the ISDA Interest Rate and Currency Exchange Agreement, copyright 2002, as amended from time to time, and as in effect with respect to any Swap Facility.

*“Junior-Subordinate Bonds”* means Bonds, the principal of and interest on which is payable on a subordinated basis to the payment of the principal of and interest on the Senior Bonds and the Subordinate Bonds; provided, however, that any series of the Junior-Subordinate Bonds need not necessarily be payable on a parity with all other series of the Junior-Subordinate Bonds.

*“Junior-Subordinate Obligations”* means Junior-Subordinate Bonds and any Swap Facility, the priority of payment of which is equal with that of Junior-Subordinate Bonds.

*“Loan Fund”* means the Fund by that name created in the Indenture, including any Accounts and Subaccounts created therein.

*“Notional Amount”* means the nonpayable or the theoretical principal amount with reference to which Corporation Swap Payments and Swap Provider Payments are calculated, as specified as such for each Swap Facility in the documentation applicable thereto.

*“Obligations”* means Senior Obligations, Subordinate Obligations and Junior-Subordinate Obligations.

*“Operating Fund”* means the fund by that name described in the Indenture.

*“Outstanding”* means, when used in connection with any Bond, a Bond which has been executed and delivered pursuant to the Indenture which at such time remains unpaid as to principal or interest, and when used in connection with a Swap Facility, a Swap Facility which has not expired or been terminated, unless provision has been made for such payment pursuant to the Indenture, excluding Bonds which have been replaced pursuant to the Indenture.

*“Person”* means an individual, corporation, estate, partnership, joint venture, association, joint stock company, trust (including any beneficiary thereof), unincorporated organization, limited liability company, limited liability partnership, or government or agency or political subdivision thereof.

*“Portfolio Yield”* means, with respect to Financed Eligible Loans allocable to Bonds that are Tax-Exempt Bonds, the composite yield on the date of calculation of the portfolio of such Financed Eligible Loans computed in accordance with the Code, assuming no additional Eligible Loans are acquired and allocable to such Tax-Exempt Bonds.

*“Priority Termination Payment”* means, with respect to a Swap Facility, any termination payment payable by the Corporation under such Swap Facility relating to an early termination of such Swap Facility by the Swap Provider, as the non-defaulting party, following (i) a payment default by the Corporation thereunder (ii) the occurrence of an Event of Default described in clause (e) under the caption “Events of Default” below or (iii) the Trustee’s taking any action under the Indenture to liquidate the entire Trust Estate following an Event of Default and acceleration of the Bonds.

*“Program”* means the Corporation’s program for the origination and the purchase of Eligible Loans, as the same may be modified from time to time.

*“Program Documentation”* means, collectively, participation agreements and any other documents governing the acquisition or origination of student loans by the Corporation and the making of Institution Loans by the Corporation under the Program from amounts available out of moneys held or pledged pursuant to the Indenture, contracts of insurance or contracts of guarantee with respect thereto and servicing agreements related thereto, as they may be amended by the Corporation from time to time.

*“Program Expenses”* means (a) the fees and expenses of the Trustee; (b) the fees and expenses of any auction agent, any market agent, any calculation agent, and any broker-dealer then acting under a Supplemental

Indenture; (c) the fees and expenses of any remarketing agent then acting under a Supplemental Indenture; (d) the fees and expenses due to any credit provider of any Bonds for which a credit facility or liquidity facility is in place; (e) the fees and expenses of any Servicer under any servicing agreement and of any custodian under any custodian agreement; (f) the fees and expenses of the Corporation incurred in connection with the preparation of legal opinions and other authorized reports or statements attributable to the Bonds and the Financed Eligible Loans; (g) transfer fees, purchase premiums, loan origination fees, marketing fees and Consolidation Fees on Financed Eligible Loans to the extent not otherwise paid from the Loan Fund; (h) fees and expenses associated with the delivery of a substitute credit facility or liquidity facility under a Supplemental Indenture; (i) fees and expenses associated with (but not payments under) Swap Facilities; (j) the costs of remarketing any variable rate Bonds; and (k) expenses incurred for the Corporation's maintenance and operation of its Program as a direct consequence of the Indenture, the Bonds or the Financed Eligible Loans, including the reasonable fees and expenses of attorneys, agents, financial advisors, rebate analysts, consultants, accountants and other professionals, attributable to such maintenance and operation, marketing expenses for the Program and a prorated portion of the rent, personnel compensation, office supplies and equipment, travel expenses and other lawful payments made to members of the Board.

*"Qualified Institution Loan"* means an Institution Loan meeting the following criteria, provided that the Trustee and the Corporation shall have received a Rating Confirmation prior to the origination or acquisition of such loans:

- (a) it was originated by the Corporation pursuant to a Qualifying Institution Agreement;
- (b) it represents the repayment obligation of a Qualifying Institution;
- (c) it is evidenced by an Institution Note, the sole executed original of which is in the possession of the Corporation and which is continually held from the time of its execution by the Corporation in its capacity as servicer;
- (d) it is payable in United States dollars;
- (e) it has been originated under, pursuant to and in accordance with the Corporation Act and the Corporation loan guidelines;
- (f) it has been advanced for the purpose of, and has financed (with the proceeds of such advance being concurrently applied to), the origination of one or more Higher Education Act Eligible Loans or Alternative Student Loans;
- (g) it is secured by an enforceable first-priority perfected security interest in the Higher Education Act Eligible Loans or Alternative Loans financed thereby (or in proceeds thereof invested solely in cash or Investment Securities), pursuant to a security agreement, with the related executed originals of Program Documentation being maintained from the time of origination in the possession of the Corporation as secured party, which the Corporation, in its capacity as servicer, shall also hold for the benefit of the Trustee and any credit facility provider;
- (h) it does not contravene in any material respect any laws, rules or regulations applicable thereto (including, without limitation, rules and regulations relating to truth in lending, fair credit billing, fair credit reporting, equal credit opportunity, fair debt collection practices and privacy); and
- (i) with respect to which all material consents, licenses, or authorizations of, or registrations with, any governmental authority required to be obtained or given in connection with the origination of such Institution Loan or the execution, delivery and performance of the related Qualifying Institution Agreement have been duly obtained or given and are in full force and effect.

*"Qualifying Institution"* means an Institution which is not the subject of an insolvency or similar proceeding, except as may be limited by a Supplemental Indenture.



*“Qualifying Institution Agreement”* means an agreement which contains among its terms and provisions the following:

(a) provisions whereby the Institution which is a party thereto grants to the Corporation an enforceable security interest under Commonwealth law in the Higher Education Act Eligible Loans and Alternative Student Loans financed through advances thereunder, all related notes evidencing such student loans, and all proceeds thereof, including provisions providing for the perfection of a security interest in favor of the Corporation in all notes financed thereunder and the related Program Documentation;

(b) provisions obligating the Institution which is the party thereto to convey all of its right, title and interest in the Higher Education Act Eligible Loans and Alternative Student Loans financed through advances thereunder, together with the related notes; and

(c) provisions delegating to the Corporation all necessary authority to administer the origination of the Higher Education Act Eligible Loans and Alternative Student Loans financed thereunder (including processing of loan applications, credit investigation and scoring, and credit approval), as well as to service and collect or contract to service and collect such Higher Education Act Eligible Loans.

*“Rating”* means one of the rating categories of S&P and Fitch or any other Rating Agency, provided S&P and Fitch or any other Rating Agency, as the case may be, is currently rating the Bonds at the request of the Corporation.

*“Rating Agency”* means, collectively, S&P and Fitch and their successors and assigns or any other Rating Agency requested by the Corporation to maintain a Rating on any of the Bonds.

*“Rating Confirmation”* means a letter from each Rating Agency then providing a Rating for any of the Bonds at the request of the Corporation, confirming that the action proposed to be taken by the Corporation will not, in and of itself, result in a reduction of any of the Ratings then applicable to the Bonds or cause any Rating Agency to suspend or withdraw the Ratings then applicable to the Bonds.

*“Rebate Amount”* means the amount computed in accordance with the Code.

*“Rebate Fund”* means the Fund by that name created under the Indenture.

*“Recoveries of Principal”* means all amounts received by the Trustee from or on account of any Financed Eligible Loan as a recovery of the principal amount thereof, including scheduled, delinquent and advance payments, payouts or prepayments, proceeds from insurance or from the sale, assignment, transfer, reallocation or other disposition of a Financed Eligible Loan and any payments representing such principal from the guarantee or insurance of any Financed Eligible Loan.

*“Registered Owner”* or *“Owner”* means the Person in whose name a Bond is registered on the Bond registration books maintained by the Trustee, and shall also mean with respect to a Swap Facility, any Swap Provider, unless the context otherwise requires.

*“Regulations”* means the Regulations promulgated from time to time by the Secretary or the Guaranty Agency.

*“Revenue”* or *“Revenues”* means all Recoveries of Principal, interest, payments, proceeds, charges and other income received by the Trustee or the Corporation from or on account of any Financed Eligible Loan (including (a) scheduled, delinquent and advance payments of and any insurance proceeds with respect to, interest, including Interest Benefit Payments, on any Financed Higher Education Act Eligible Loan and any Special Allowance Payment received by the Corporation with respect to any Financed Higher Education Act Eligible Loan and (b) scheduled, delinquent and advance payments of interest and any insurance or guarantee proceeds with respect to any Alternative Student Loan), all payments received with respect to and all interest earned or gain

realized from the investment of amounts in any Fund or Account and all payments received by the Corporation pursuant to a Swap Facility.

“*Revenue Fund*” means the Fund by that name created in the Indenture, including any Accounts and Subaccounts created therein.

“*S&P*” means Standard & Poor’s Ratings Service, a Division of the McGraw-Hill Companies, Inc., its successors and assigns, and if such entity shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, “*S&P*” shall be deemed to refer to any other nationally recognized securities rating agency designated by the Corporation.

“*Secretary*” means the Secretary of the United States Department of Education or any successor to the pertinent functions thereof under the Act.

“*Securities Depository*” or “*Depository*” means The Depository Trust Company and its successors and assigns or if, (a) the then Securities Depository resigns from its functions as depository of the Bonds or (b) the Corporation discontinues use of the Securities Depository pursuant to the Indenture, any other securities depository which agrees to follow the procedures required to be followed by a securities depository in connection with the Bonds and which is selected by the Corporation with the consent of the Trustee.

“*Senior Bonds*” means the Existing Senior Bonds, the Series 2005A Bonds and any Additional Bonds secured on a senior priority to the Subordinate Obligations and the Junior-Subordinate Obligations.

“*Senior Obligations*” means Senior Bonds and any Swap Facility, the priority of payment of which is equal with that of Senior Bonds.

“*Servicer*” means the Corporation and any other additional servicer or successor servicer selected by the Corporation, so long as the Corporation obtains a Rating Confirmation as to each such other servicer.

“*Servicing Agreement*” means a servicing agreement, if any, with a Servicer relating to Financed Eligible Loans, as amended from time to time.

“*Special Allowance Payments*” means the special allowance payments authorized to be made by the Secretary by Section 438 of the Act, or similar allowances, if any, authorized from time to time by federal law or regulation.

“*Stated Maturity*” means the date specified in the Bonds as the fixed date on which principal of such Bonds is due and payable.

“*Student Loan Purchase Agreement*” means any loan purchase agreement entered into for the purchase of Eligible Loans into the Trust Estate.

“*Subaccount*” means any of the subaccounts which may be created and established within any Account by the Indenture or any Supplemental Indenture.

“*Subordinate Bonds*” means the Existing Subordinate Bonds, the Series 2005B-1 Bonds and any Additional Bonds secured on a priority subordinate to the Senior Obligations and on a priority senior to the Junior-Subordinate Bonds.

“*Subordinate Obligations*” means Subordinate Bonds, and any Swap Facility, the priority of payment of which is equal with that of Subordinate Bonds.

“*Supplemental Indenture*” means an agreement supplemental to the Indenture and executed pursuant thereto.

“*Swap Facility*” means any financial arrangement entered into pursuant to the terms described under the caption “*Swap Facilities*” below: (i) that is entered into by the Corporation with an entity that is a Swap Provider at the time the arrangement is entered into; (ii) (a) which provides that the Corporation will pay to such entity an amount based on the interest accruing at a fixed rate on the Notional Amount equal to all or part of the Outstanding principal amount of a series of Obligations issued hereunder, and that such entity will pay to the order of the Corporation an amount based on the interest accruing on the Notional Amount at a variable rate of interest computed according to a formula set forth in such arrangement (which need not be the same as the actual rate of interest borne by such series of Obligations) or that one (after adjustment for any cap, floor, collar or other financial arrangement referred to in (ii)(c) hereof, with respect thereto) will pay to the other the net amount (Corporation Swap Payment or Swap Provider Payment) due under such arrangement; (b) which provides that the Corporation will pay to such entity an amount based on the interest accruing on the Notional Amount equal to all or part of the Outstanding principal amount of a series of Obligations issued under the Indenture, at a variable rate of interest computed according to a formula set forth in such arrangement and that such entity will pay to the order of the Corporation an amount based on the interest accruing at a fixed rate on the Notional Amount (which need not be the same as the actual rate of interest borne by such series of Obligations) or that one (after adjustment for any cap, floor, collar or other financial arrangement referred to in (ii)(c) hereof, with respect thereto) shall pay to the other the net amount (Corporation Swap Payment or Swap Provider Payment) due under such arrangement; or (c) which is included as part of or covered by the financial transaction described in (ii)(a) or (ii)(b) above or is separately executed and which is a cap, floor or collar, forward rate, future rate, asset, swap or index, price or market linked transaction or agreement, other exchange or rate protection transaction agreement, other similar transaction (however designated) or any combination thereof or any option with respect thereto executed by the Corporation for the purpose of moderating interest rate fluctuations or otherwise pursuant to the Corporation Act; and (iii) which has been designated by a Corporation Order to the Trustee and authenticated or otherwise registered by the Trustee under the Indenture as a Swap Facility with respect to a series of Obligations. “*Swap Facility*” also includes any such financial arrangement described in clauses (ii) and (iii) above entered into by the Corporation with a Swap Provider as a replacement of a Swap Facility that has been terminated and which has been so designated by a Corporation Order to the Trustee with respect to a series of Obligations.

“*Swap Payment Date*” means, with respect to a Swap Facility, any date specified in the Swap Facility on which both or either of the Corporation Swap Payment and/or a Swap Provider Payment is due and payable under the Swap Facility.

“*Swap Provider*” means any counterparty under a Swap Facility.

“*Swap Provider Payments*” means any payment to be made to, or for the benefit of, the Corporation under a Swap Facility.

“*Tax Documents*” means, collectively, the certificates and agreements of the Corporation and instructions to the Corporation and the Trustee, all dated the Date of Issuance, relating to the use of proceeds of the Tax-Exempt Bonds and which sets forth the grounds for the Corporation’s belief that the Tax-Exempt Bonds are not “arbitrage bonds” within the meaning of the Code, including the exhibits and schedules attached thereto.

“*Taxable Bonds*” means any Bonds issued and delivered pursuant to the Indenture, the interest on which does not purport to be excluded from the federal gross income of the Registered Owners thereof.

“*Taxable Cost of Issuance Account*” means the Account by that name created in the Indenture.

“*Taxable Debt Service Reserve Account*” means the Account by that name created pursuant to the Indenture.

“*Taxable Junior-Subordinate Bonds*” means Junior-Subordinate Bonds which are Taxable Bonds.

“*Taxable Loan Account*” means the Account by that name created pursuant to the Indenture.

“*Taxable Revenue Account*” means the Account by that name created pursuant to the Indenture.

*“Taxable Senior Bonds”* means Senior Bonds which are Taxable Bonds.

*“Taxable Subordinate Bonds”* means Subordinate Bonds which are Taxable Bonds.

*“Tax-Exempt Bonds”* means any Bonds which do not constitute Taxable Bonds.

*“Tax-Exempt Cost of Issuance Account”* means the Account by that name created in the Indenture.

*“Tax-Exempt Debt Service Reserve Account”* means the Account by that name created pursuant to the Indenture.

*“Tax-Exempt Junior-Subordinate Bonds”* means Junior-Subordinate Bonds which are Tax-Exempt Bonds.

*“Tax-Exempt Loan Account”* means the Account by that name created pursuant to the Indenture.

*“Tax-Exempt Revenue Account”* means the Account by that name created pursuant to the Indenture.

*“Tax-Exempt Senior Bonds”* means Senior Bonds which are Tax-Exempt Bonds.

*“Tax-Exempt Subordinate Bonds”* means Subordinate Bonds which are Tax-Exempt Bonds.

*“Termination Payment”* means, with respect to a Swap Facility, any termination payment payable by the Corporation under such Swap Facility relating to an early termination of such Swap Facility by the Swap Provider, as the non-affected party or non-defaulting party, after the occurrence of a termination event or event of default specified in such Swap Facility, including without limitation any Priority Termination Payment.

*“Trust Estate”* means (a) the Revenues (other than Revenues deposited in the Rebate Fund or the Operating Fund or otherwise released from the lien of the Trust Estate as provided in the Indenture), (b) all moneys and investments held in the Funds (other than the moneys and investments held in the Rebate Fund and the Operating Fund), (c) the Financed Eligible Loans, (d) the rights of the Corporation in and to the Guarantee Agreement and any Servicing Agreements and Student Loan Purchase Agreements, as the same relate to Financed Eligible Loans, (e) the rights of the Corporation in and to any Swap Facility and any Swap Provider Payments; provided, however, that this clause (e) will not be for the benefit of a Swap Provider with respect to its Swap Facility, (f) the rights of the Corporation in any collateral for Qualified Institution Loans, including without limitation, any Eligible Loans financed by a Qualifying Institution with the proceeds of a Qualified Institution Loan, and (g) any and all other property, rights and interests of every kind or description that from time to time hereafter is granted, conveyed, pledged, transferred, assigned or delivered to the Trustee as additional security under the Indenture.

*“Underwriter”* means (a) with respect to the 2005 Bonds, UBS Financial Services Inc. and (b) with respect to any Additional Bonds, the underwriter(s) or placement agent(s) of such other Additional Bonds.

*“Value”* on any calculation date when required under the Indenture shall mean the value of the Trust Estate calculated by the Corporation as to (a) below and by the Trustee as to (b) through (e), inclusive, below, as follows:

(a) with respect to any Eligible Loan, the unpaid principal amount thereof plus any accrued but unpaid interest, Interest Benefit Payments and Special Allowance Payments;

(b) with respect to any funds of the Corporation held under the Indenture and on deposit in any commercial bank or as to any banker’s acceptance or repurchase agreement or investment contract, the amount thereof plus accrued but unpaid interest;

(c) with respect to any Investment Securities of an investment company, the bid price of the shares as reported by the investment company plus accrued but unpaid interest;

(d) as to investments the bid and asked prices of which are published on a regular basis in The Wall Street Journal (or, if not there, then in The New York Times): the average of the bid and asked prices for such investments so published on or most recently prior to such time of determination; and

(e) as to investments the bid and asked prices of which are not published on a regular basis in The Wall Street Journal or The New York Times: (i) the lower of the bid prices at such time of determination for such investments by any two nationally recognized government securities dealers (selected by the Corporation in its absolute discretion) at the time making a market in such investments or (ii) the bid price published by a nationally recognized pricing service.

### **SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE**

The following are summaries of certain provisions of the Indenture. These summaries do not purport to be complete or definitive and are qualified in their entirety by reference to the full terms of the Indenture.

#### **Pledge for Payment**

The Corporation covenants in the Indenture that it will promptly pay, but solely from the Trust Estate (except as provided below), the principal of and interest, if any, on each and every Obligation issued under the provisions of the Indenture at the places, on the dates and in the manner specified therein and in the Obligations and any premium required for the retirement of the Obligations by purchase or redemption according to the true intent and meaning thereof. The Obligations shall be payable from and equally secured by an irrevocable first lien on and pledge of the properties constituting the Trust Estate, subject to the application thereof as permitted by the Indenture, but in no event shall the Registered Owners or any holders of the Obligations have any right to possession of any Financed Eligible Loans, which shall be held only by the Corporation or its agent or bailee.

To the fullest extent permitted by the Corporation Act, the Trust Estate will immediately be subject to the lien of the pledge created by the Indenture without any physical delivery thereof or further act, and the lien of such pledge will be valid and binding as against all parties having claims of any kind in tort, contract or otherwise against the Corporation, irrespective of whether such parties have notice thereof.

To the fullest extent provided by the Corporation Act, the pledge made pursuant to the Indenture will be immediately valid and binding and will constitute a perfected first lien on the Trust Estate in favor of the Trustee as security for payment of all Outstanding Obligations, subject to the provisions of the Indenture and Supplemental Indentures permitting the use, application and disposal thereof.

#### **Additional Bonds**

The Corporation shall have the authority, upon complying with the provisions of the Indenture, to execute and deliver from time to time Additional Bonds secured by the Trust Estate on a parity with either the Senior Bonds, the Subordinate Bonds or the Junior-Subordinate Bonds, if any, secured under the Indenture as shall be determined by the Corporation. In addition, the Corporation may enter into any Swap Facility it deems necessary or desirable with respect to any or all of the Bonds, subject to the provisions described below under the caption "Swap Facilities."

No Additional Bonds shall be executed and delivered by the Corporation and authenticated by the Trustee pursuant to the Indenture until the following conditions have been satisfied:

(a) The Corporation and the Trustee have entered into a Supplemental Indenture (which Supplemental Indenture shall not require the approval of the Registered Owners of any of the Outstanding Bonds or Swap Facilities) providing the terms and forms of the Additional Bonds, including the designation of such Additional Bonds as Senior Bonds, Subordinate Bonds or Junior-Subordinate Bonds, whether such Additional Bonds are Taxable Bonds or Tax-Exempt Bonds, the redemption and selection provisions applicable to such Additional Bonds, and the Debt Service Reserve Fund Requirement with respect to such Additional Bonds, if any.

(b) The Trustee shall have received a Rating Confirmation with respect to any Outstanding Bonds.

(c) The Trustee shall have received an opinion of Bond Counsel to the effect that the issuance of the proposed Additional Bonds will not adversely affect the excludability of interest from gross income with respect to any Outstanding Bonds which are Tax-Exempt Bonds.

(d) The Trustee shall have received an opinion of Bond Counsel to the effect that all of the foregoing conditions to the issuance of the proposed Additional Bonds have been satisfied.

(e) Upon the execution and delivery of the Additional Bonds, an amount equal to the Debt Service Reserve Fund Requirement with respect to such Additional Bonds, if any, shall be deposited in the Debt Service Reserve Fund.

(f) The Trustee shall have received a Corporation Order to authenticate and deliver the Additional Bonds.

### **Swap Facilities**

The Corporation is permitted to enter into Swap Facilities with Swap Providers under which (a) the Corporation may be required to make, from time to time, Corporation Swap Payments and (b) the Trustee may receive, from time to time, Swap Provider Payments for the account of the Corporation. No Swap Facility shall be entered into unless the Trustee and the Corporation shall have received a Rating Confirmation from each Rating Agency that such Swap Facility will not adversely affect the Rating on any of the Bonds.

### **Creation and Continuation of Funds and Accounts**

There are created and established pursuant to the Indenture the following Funds to be held and maintained by the Trustee for the benefit of the Registered Owners:

- (a) Loan Fund, including a Tax-Exempt Loan Account and a Taxable Loan Account therein,
- (b) Revenue Fund, including a Tax-Exempt Revenue Account, a Taxable Revenue Account and a Capitalized Interest Account therein,
- (c) Debt Service Reserve Fund, including a Tax-Exempt Debt Service Reserve Account and a Taxable Debt Service Reserve Account therein; and
- (d) Cost of Issuance Fund, including a Tax-Exempt Cost of Issuance Account and a Taxable Cost of Issuance Account therein.

An Operating Fund has also been established by the Corporation. The Operating Fund shall not constitute a Fund within the meaning of the Indenture, and shall be held by a depository bank of the Corporation for the benefit of the Corporation; and the Registered Owners shall have no right, title or interest therein.

The Trustee is authorized for the purpose of facilitating the administration of the Trust Estate and for the administration of any Additional Bonds to create further Accounts or Subaccounts in any of the various Funds and Accounts established under the Indenture as described in a Supplemental Indenture which are deemed necessary or desirable.

### **Loan Fund**

There shall be deposited into the Tax-Exempt Loan Account moneys described in a Supplemental Indenture from proceeds of any Tax-Exempt Bonds and moneys transferred thereto from the Tax-Exempt Revenue Account, moneys transferred thereto from the Tax-Exempt Debt Service Reserve Account and moneys transferred

thereto from the Tax-Exempt Cost of Issuance Account. There shall be deposited in the Taxable Loan Account moneys described in a Supplemental Indenture from proceeds of any Taxable Bonds and moneys transferred thereto from the Taxable Revenue Account, moneys transferred thereto from the Taxable Debt Service Reserve Account, moneys transferred thereto from the Taxable Cost of Issuance Account and any other moneys of the Corporation specified in a Corporation Order or a Supplemental Indenture. Financed Eligible Loans shall be accounted for as a part of the Loan Fund.

Moneys on deposit in the Loan Fund shall be used, upon Corporation Order, solely (a) to pay costs of issuance of the Bonds, (b) to redeem Bonds, (c) to make transfers to the Revenue Fund, the Debt Service Reserve Fund and, if necessary, to the Operating Fund pursuant to the Indenture, (d) to originate Eligible Loans, and (e) to acquire Eligible Loans. Any such Corporation Order shall state that such proposed use of moneys in the Loan Fund is in compliance with the provisions of the Indenture. If the Corporation determines that all or any portion of such moneys cannot be so used, then an Authorized Officer of the Corporation may by Corporation Order direct the Trustee to redeem Bonds in accordance with the Indenture.

Notwithstanding the foregoing, if on any Bond Payment Date there are not sufficient moneys on deposit in the Tax-Exempt Revenue Account to make the transfers described in clauses (a) through (h) under the caption "Revenue Fund—Tax-Exempt Revenue Account" below, then an amount equal to any such deficiency shall be transferred directly from the Tax-Exempt Loan Account; and if on any Bond Payment Date there are not sufficient moneys on deposit in the Taxable Revenue Account to make the transfers described in clauses (a) through (g) under the caption "Revenue Fund—Taxable Revenue Account" below, then an amount equal to any such deficiency shall be transferred directly from the Taxable Loan Account.

Financed Eligible Loans shall be sold, transferred or otherwise disposed of (including transfers or sales to other trust estates) by the Trustee free from the lien of the Indenture at any time pursuant to a Corporation Order and if the Trustee is provided with the following:

(a) a Corporation Order certifying the sale price and directing that Financed Eligible Loans be sold, assigned, transferred, conveyed or otherwise disposed of and delivered to:

(i) if the Eligible Loan is a Higher Education Act Eligible Loan and the Act requires a Higher Education Act Eligible Loan to be held only by an Eligible Lender, an Eligible Lender under the Act whose name shall be specified;

(ii) the trustee under another indenture securing bonds issued by the Corporation whose name shall be specified in such Corporation Order; or

(iii) such other Person as designated by the Corporation; and

(b) a certificate signed by an Authorized Officer of the Corporation to the effect that:

(i) the disposition price is equal to or in excess of the principal amount thereof (plus accrued interest) or equal to or in excess of the purchase price paid by the Corporation for such Financed Eligible Loan (less Recoveries of Principal with respect to such Financed Eligible Loan); or

(ii) the disposition price is lower than the principal amount thereof (plus accrued interest), and (A) the Corporation reasonably believes that the Revenues expected to be received (after giving effect to such disposition) would be at least equal to the Revenues expected to be received assuming no such sale, transfer or other disposition occurred, or (B) the Corporation shall remain able to pay debt service on the Bonds and make payment on any other Obligations on a timely basis (after giving effect to such sale, transfer or other disposition) whereas it would not have been able to do so on a timely basis if it had not sold, transferred or disposed of the Financed Eligible Loans at such discounted amount, (C) the Aggregate Market Value of the Trust Estate (after giving effect to such sale, transfer or other disposition) will be at least equal to 100% of the

aggregate principal amount of and accrued interest to the date of calculation on the Obligations then Outstanding and all other liabilities due and owing under this Indenture, or (D) the amount for which the Financed Eligible Loans are being sold, assigned, transferred or disposed of is equal to or greater than the purchase price paid by the Corporation for such Financed Eligible Loans (less Recoveries of Principal with respect to such Financed Eligible Loans).

Further, Financed Eligible Loans shall also be sold, transferred or otherwise disposed of by the Trustee pursuant to a Corporation Order in which the Corporation determines that such disposition of Financed Eligible Loans from the Trust Estate is necessary in order to avoid the occurrence of an Event of Default or to avoid any default in the payment obligations of the Corporation under any reimbursement agreement, in such amount and at such times and prices as may be specified in such Corporation Order. The Trustee, following receipt of the foregoing and, if such Financed Eligible Loans being sold, transferred or disposed of are Higher Education Act Eligible Loans, a certificate of the Corporation indicating that such purchaser or transferee is one of the entities described in clause (a) above, shall deliver such Financed Eligible Loans free from the lien of the Indenture upon the receipt of the purchase price or consideration specified in the Corporation Order, in compliance with the foregoing. The Trustee shall deposit the proceeds of any such sale, transfer or other disposition into the Fund or Account with respect to which such Financed Eligible Loans were attributable.

Notwithstanding any of the foregoing provisions of this paragraph, the Corporation shall not direct the Trustee to sell, transfer or otherwise dispose of Financed Eligible Loans if such disposition would have an adverse effect on the exclusion from gross income of interest on the Tax-Exempt Bonds for federal income tax purposes.

The Corporation may at any time make additional deposits to the Loan Fund for the purpose of purchasing Eligible Loans from a Qualifying Institution in connection with such Qualifying Institution's repayment of its Qualified Institution Loan. Anything herein to the contrary notwithstanding, any such amounts deposited by the Corporation shall be repaid to the Corporation, without any further authorization or direction, from and to the extent of amounts paid by such Qualified Institution as repayment of its Qualified Institution Loan.

## **Revenue Fund**

### *Tax-Exempt Revenue Account.*

The Trustee shall deposit into the Tax-Exempt Revenue Account all Revenues derived from Financed Eligible Loans originated or acquired by the Corporation from moneys on deposit in the Tax-Exempt Loan Account, and all other Revenue derived from moneys or assets on deposit in the Tax-Exempt Loan Account, the Tax-Exempt Debt Service Reserve Account, the Tax-Exempt Revenue Account and the Tax-Exempt Cost of Issuance Account, all Swap Provider Payments with respect to Tax-Exempt Bonds and any other amounts deposited thereto upon receipt of a Corporation Order.

Upon receipt of a Corporation Order directing the same, moneys in the Tax-Exempt Revenue Account shall be used, on any date, to pay Program Expenses or, subject to the restrictions described below under the caption "Operating Fund", to make a transfer to the Operating Fund to pay Program Expenses. Each Corporation Order directing the Trustee to use moneys in the Tax-Exempt Revenue Account to pay Program Expenses shall (a) include a statement that the amount requisitioned is in compliance with the provisions of the Indenture, including any applicable limitations set forth therein, or (b) shall be accompanied by a Rating Confirmation with respect to the payment of such Program Expenses.

For so long as the 2004 Bonds and the 2005 Bonds are Outstanding, amounts paid from the Revenue Fund to pay Program Expenses on a monthly basis may not exceed one-twelfth of 1.25% of the outstanding principal amount of Financed Eligible Loans held in the Tax-Exempt Loan Account at the end of the preceding month plus one-twelfth of 1.10% of the outstanding principal amount of Financed Eligible Loans held in the Taxable Loan Account at the end of the preceding month, unless a Rating Confirmation is obtained with respect thereto.

All Recoveries of Principal constituting a portion of the Revenue deposited in the Tax-Exempt Revenue Account and so identified to the Trustee by the Corporation, shall be transferred, as soon as practicable, to the



Tax-Exempt Loan Account unless there is a deficiency in the Tax-Exempt Debt Service Reserve Account, in which case they shall be transferred to the Tax-Exempt Debt Service Reserve Account to the extent of such deficiency, or unless there is a deficiency in the Taxable Debt Service Reserve Account, in which case they shall be transferred to the Taxable Debt Service Reserve Account following any other transfers thereto, to the extent of such deficiency. Upon receipt of a Corporation Order directing the same, moneys in the Tax-Exempt Revenue Account shall be used, on any date, to fund the acquisition of Add-on Consolidation Loans during the related Add-on Period to the extent moneys are not otherwise available therefor in the Tax-Exempt Loan Account.

In addition, on each Bond Payment Date and Swap Payment Date, money in the Tax-Exempt Revenue Account shall be used and transferred to other Funds or Persons in the following order of precedence (any moneys not so transferred to remain in the Tax-Exempt Revenue Account until subsequently applied):

(a) to the Rebate Fund, upon receipt of a Corporation Order and, if necessary to comply with any Tax Document with respect to rebate of excess interest;

(b) on a parity basis, to pay interest due on any Tax-Exempt Senior Bonds on such Bond Payment Date and any Corporation Swap Payment secured on a parity with the Tax-Exempt Senior Bonds due on such Swap Payment Date, and to the extent there are insufficient moneys available in the Taxable Revenue Account, to pay interest due on any Taxable Senior Bonds on such Bond Payment Date and any Corporation Swap Payment secured on a parity with the Taxable Senior Bonds due on such Swap Payment Date;

(c) on a parity basis, to pay the principal of or premium, if any, on any Tax-Exempt Senior Bonds due on such Bond Payment Date (if such Bond Payment Date is a Stated Maturity or mandatory sinking fund redemption date with respect to such Tax-Exempt Senior Bonds), and to the extent there are insufficient moneys available in the Taxable Revenue Account, to pay the principal of or premium, if any, on any Taxable Senior Bonds due on such Bond Payment Date (if such Bond Payment Date is a Stated Maturity or mandatory sinking fund redemption date with respect to such Taxable Senior Bonds);

(d) on a parity basis, to pay interest due on any Tax-Exempt Subordinate Bonds on such Bond Payment Date and any Corporation Swap Payment secured on a parity with the Tax-Exempt Subordinate Bonds due on such Swap Payment Date, and to the extent there are insufficient moneys available in the Taxable Revenue Account, to pay interest due on any Taxable Subordinate Bonds on such Bond Payment Date and any Corporation Swap Payment secured on a parity with the Taxable Subordinate Bonds due on such Swap Payment Date;

(e) on a parity basis, to pay the principal of or premium, if any, on any Tax-Exempt Subordinate Bonds due on such Bond Payment Date (if such Bond Payment Date is a Stated Maturity or mandatory sinking fund redemption date with respect to such Tax-Exempt Subordinate Bonds), and to the extent there are insufficient moneys available in the Taxable Revenue Account, to pay the principal of or premium, if any, on any Taxable Subordinate Bonds due on such Bond Payment Date (if such Bond Payment Date is a Stated Maturity or mandatory sinking fund redemption date with respect to such Taxable Subordinate Bonds);

(f) on a parity basis, to pay interest on Tax-Exempt Junior-Subordinate Bonds on such Bond Payment Date and to make any Corporation Swap Payment secured on a parity with such Tax-Exempt Junior-Subordinate Bonds due on such Swap Payment Date, and to the extent there are insufficient moneys available in the Taxable Revenue Account, to pay interest due on any Taxable Junior-Subordinate Bonds on such Bond Payment Date and any Corporation Swap Payment secured on a parity with the Taxable Junior-Subordinate Bonds due on such Swap Payment Date;

(g) on a parity basis, to pay the principal of or premium, if any, on any Tax-Exempt Junior-Subordinate Bonds due on such Bond Payment Date (if such Bond Payment Date is a Stated Maturity or mandatory sinking fund redemption date with respect to such Tax-Exempt Junior-Subordinate Bonds), and to the extent there are insufficient moneys available in the Taxable Revenue Account, to pay the principal of or premium, if any, on any Taxable Junior-Subordinate Bonds due on such Bond Payment Date (if such

Bond Payment Date is a Stated Maturity or mandatory sinking fund redemption date with respect to such Taxable Junior-Subordinate Bonds);

(h) on a parity basis, to the Tax-Exempt Debt Service Reserve Account the amount, if any, required to restore a deficiency therein as required by the Indenture and to the Taxable Debt Service Reserve Account the amount, if any, required to restore a deficiency therein as required by the Indenture;

(i) upon receipt of a Corporation Order, to pay Termination Payments (other than Priority Termination Payments) due on a Swap Payment Date and any other unpaid Corporation Swap Payment relating to Tax-Exempt Bonds in the following order of priority: first, to a Swap Provider who has provided a Swap Facility secured on a parity with the Tax-Exempt Senior Bonds; second, to a Swap Provider who has provided a Swap Facility secured on a parity with the Tax-Exempt Subordinate Bonds; third, to a Swap Provider who has provided a Swap Facility secured on a parity with the Tax-Exempt Junior-Subordinate Bonds;

(j) at the option of the Corporation and upon Corporation Order, to the Tax-Exempt Loan Account; and

(k) at the option of the Corporation and upon Corporation Order, to the Corporation to the extent permitted by the Indenture as described below under the caption "Transfers to the Corporation."

Any moneys not transferred as described above shall remain in the Tax-Exempt Revenue Account until subsequently applied.

*Taxable Revenue Account.*

The Trustee shall deposit into the Taxable Revenue Account all Revenues derived from Financed Eligible Loans originated or acquired by the Corporation from moneys on deposit in the Taxable Loan Account, and all other Revenue derived from moneys or assets on deposit in the Taxable Loan Account, the Taxable Debt Service Reserve Account, the Taxable Revenue Account and the Taxable Cost of Issuance Account, all Swap Provider Payments with respect to Taxable Bonds and any other amounts deposited thereto upon receipt of a Corporation Order.

Upon receipt of a Corporation Order directing the same, moneys in the Taxable Revenue Account shall be used, on any date, to pay Program Expenses or, subject to the restrictions described below under the caption "Operating Fund", to make a transfer to the Operating Fund to pay Program Expenses. Each Corporation Order directing the Trustee to use moneys in the Taxable Revenue Account to pay Program Expenses shall (a) include a statement that the amount requisitioned is in compliance with the provisions of the Indenture, including any applicable limitations set forth therein, or (b) shall be accompanied by a Rating Confirmation with respect to the payment of such Program Expenses.

For so long as the 2004 Bonds and the 2005 Bonds are Outstanding, amounts paid from the Revenue Fund to pay Program Expenses on a monthly basis may not exceed one-twelfth of 1.25% of the outstanding principal amount of Financed Eligible Loans held in the Tax-Exempt Loan Account at the end of the preceding month plus one-twelfth of 1.10% of the outstanding principal amount of Financed Eligible Loans held in the Taxable Loan Account at the end of the preceding month, unless a Rating Confirmation is obtained with respect thereto.

All Recoveries of Principal constituting a portion of the Revenue deposited in the Taxable Revenue Account and so identified to the Trustee by the Corporation, shall be transferred, as soon as practicable, to the Taxable Loan Account unless there is a deficiency in the Taxable Debt Service Reserve Account, in which case they shall be transferred to the Taxable Debt Service Reserve Account to the extent of such deficiency, or unless there is a deficiency in the Tax-Exempt Debt Service Reserve Account, in which case they shall be transferred to the Tax-Exempt Debt Service Reserve Account following any other transfers thereto, to the extent of such deficiency. Upon receipt of a Corporation Order directing the same, moneys in the Taxable Revenue Account shall be used, on any date, to fund the acquisition of Add-on Consolidation Loans during the related Add-on Period to the extent moneys are not otherwise available therefor in the Taxable Loan Account.

In addition, on each Bond Payment Date and Swap Payment Date, money in the Taxable Revenue Account shall be used and transferred to other Funds or Persons in the following order of precedence (any money not so transferred or paid to remain in the Taxable Revenue Account until subsequently applied):

(a) on a parity basis, to pay interest due on any Taxable Senior Bonds on such Bond Payment Date and any Corporation Swap Payment secured on a parity with the Taxable Senior Bonds due on such Swap Payment Date, and to the extent there are insufficient moneys available in the Tax-Exempt Revenue Account, to pay interest due on any Tax-Exempt Senior Bonds on such Bond Payment Date and any Corporation Swap Payment secured on a parity with the Tax-Exempt Senior Bonds due on such Swap Payment Date;

(b) on a parity basis, to pay the principal of or premium, if any, on any Taxable Senior Bonds due on such Bond Payment Date (if such Bond Payment Date is a Stated Maturity or mandatory sinking fund redemption date with respect to such Taxable Senior Bonds), and to the extent there are insufficient moneys available in the Tax-Exempt Revenue Account, to pay the principal of or premium, if any, on any Tax-Exempt Senior Bonds due on such Bond Payment Date (if such Bond Payment Date is a Stated Maturity or mandatory sinking fund redemption date with respect to such Tax-Exempt Bonds);

(c) on a parity basis, to pay interest due on any Taxable Subordinate Bonds on such Bond Payment Date and any Corporation Swap Payment secured on a parity with the Taxable Subordinate Bonds due on such Swap Payment Date, and to the extent there are insufficient moneys available in the Tax-Exempt Revenue Account, to pay interest due on any Tax-Exempt Subordinate Bonds on such Bond Payment Date and any Corporation Swap Payment secured on a parity with the Tax-Exempt Subordinate Bonds due on such Swap Payment Date;

(d) on a parity basis, to pay the principal of or premium, if any, on any Taxable Subordinate Bonds due on such Bond Payment Date (if such Bond Payment Date is a Stated Maturity or mandatory sinking fund redemption date with respect to such Taxable Subordinate Bonds), and to the extent there are insufficient moneys available in the Tax-Exempt Revenue Account, to pay the principal of or premium, if any, on any Tax-Exempt Subordinate Bonds due on such Bond Payment Date (if such Bond Payment Date is a Stated Maturity or mandatory sinking fund redemption date with respect to such Tax-Exempt Subordinate Bonds);

(e) on a parity basis, to pay interest on Taxable Junior-Subordinate Bonds on such Bond Payment Date and to make any Corporation Swap Payment secured on a parity with such Taxable Junior-Subordinate Bonds due on such Swap Payment Date, and to the extent there are insufficient moneys available in the Tax-Exempt Revenue Account, to pay interest due on any Tax-Exempt Junior-Subordinate Bonds on such Bond Payment Date and any Corporation Swap Payment secured on a parity with the Tax-Exempt Junior-Subordinate Bonds due on such Swap Payment Date;

(f) on a parity basis, to pay principal the principal of or premium, if any, on any Taxable Junior-Subordinate Bonds due on such Bond Payment Date (if such Bond Payment Date is a Stated Maturity or mandatory sinking fund redemption date with respect to such Taxable Junior-Subordinate Bonds), and to the extent there are insufficient moneys available in the Tax-Exempt Revenue Account, to pay the principal of or premium, if any, on any Tax-Exempt Junior-Subordinate Bonds due on such Bond Payment Date (if such Bond Payment Date is a Stated Maturity or mandatory sinking fund redemption date with respect to such Tax-Exempt Junior-Subordinate Bonds);

(g) on a parity basis to the Taxable Debt Service Reserve Account the amount, if any, required to restore a deficiency therein as required by the Indenture and to the Tax-Exempt Debt Service Reserve Account the amount, if any, required to restore a deficiency therein as required by the Indenture;

(h) upon receipt of a Corporation Order, to pay interest accrued on the interest carryover amounts of the Taxable Senior Bonds, the interest carryover amounts of the Taxable Senior Bonds, to pay interest accrued on the interest carryover amounts of the Taxable Subordinate Bonds, the interest carryover amounts of the Taxable Subordinate Bonds, to pay interest accrued on the interest carryover amounts of the

Taxable Junior-Subordinate Bonds, and the interest carryover amounts of the Taxable Junior-Subordinate Bonds, in that order of priority;

(i) upon receipt of a Corporation Order, to pay Termination Payments (other than Priority Termination Payments) due on a Swap Payment Date and any other unpaid Corporation Swap Payment relating to Taxable Bonds in the following order of priority: first, to a Swap Provider who has provided a Swap Facility secured on a parity with the Taxable Senior Bonds; second, to a Swap Provider who has provided a Swap Facility secured on a parity with the Taxable Subordinate Bonds; third, to a Swap Provider who has provided a Swap Facility secured on a parity with the Taxable Junior-Subordinate Bonds;

(j) at the option of the Corporation and upon Corporation Order, to the Taxable Loan Account; and

(k) at the option of the Corporation and upon Corporation Order, to the Corporation to the extent permitted by the Indenture as described below under the caption "Transfers to the Corporation."

Any moneys not transferred as described above shall remain in the Taxable Revenue Account until subsequently applied.

*Capitalized Interest Account.*

The Trustee shall deposit to the Capitalized Interest Account the amount, if any, specified in each Supplemental Indenture. On each Bond Payment Date, amounts on deposit in the Capitalized Interest Account shall be used (i) to the extent there are insufficient moneys in the Tax-Exempt Revenue Account to make the transfers described in clauses (a) through (g) under the caption "Revenue Fund—Tax-Exempt Revenue Account," to pay the amount of such deficiency directly from the Capitalized Interest Account, (ii) to the extent there are insufficient moneys in the Taxable Revenue Account to make the transfers described in clauses (a) through (f) under the caption "Revenue Fund—Taxable Revenue Account," to pay the amount of such deficiency directly from the Capitalized Interest Account, or (iii) as otherwise provided in a Supplemental Indenture.

**Debt Service Reserve Fund**

The Trustee shall deposit to the Tax-Exempt Debt Service Reserve Account the amount (or a Funding Instrument in lieu thereof), if any, specified in each Supplemental Indenture. On each Bond Payment Date, to the extent there are insufficient moneys in the Tax-Exempt Revenue Account, the Capitalized Interest Account or the Tax-Exempt Loan Account to make the transfers described in clauses (a) through (g) under the caption "Revenue Fund—Tax-Exempt Revenue Account" above, then the amount of such deficiency shall be paid directly from the Tax-Exempt Debt Service Reserve Account.

If the Tax-Exempt Debt Service Reserve Account is used for the purposes described in the paragraph above or is otherwise less than the Debt Service Reserve Fund Requirement, the Trustee shall restore the Tax-Exempt Debt Service Reserve Account to the Debt Service Reserve Fund Requirement with respect thereto by transfers from the Tax-Exempt Revenue Account as described in the third paragraph under the caption "Revenue Fund—Tax-Exempt Revenue Account" and pursuant to clause (h) under the caption "Revenue Fund—Tax-Exempt Revenue Account" above and from the Taxable Revenue Account as described in the third paragraph under the caption "Revenue Fund—Taxable Revenue Account" and pursuant to clause (g) under the caption "Revenue Fund—Taxable Revenue Account" above; provided, however, that principal and interest owing on any Funding Instrument shall first be paid (an paid pro rata if there is more than one Funding Instrument) and after all such amounts are paid in full, amounts necessary to fund the Tax-Exempt Debt Service Reserve Account to the applicable Debt Service Reserve Fund Requirement, after taking into account the amount available under the Funding Instrument, shall be deposited into the Tax-Exempt Debt Service Reserve Account in accordance with this paragraph. If the full amount required to restore the Tax-Exempt Debt Service Reserve Account to the applicable Debt Service Reserve Fund Requirement is not available in such Accounts on such next succeeding Bond Payment Date, the Trustee shall continue to transfer funds from such Accounts as they become available and in accordance with the preceding sentence until the deficiency in the Tax-Exempt Debt Service Reserve Account has been eliminated.

On any day that the amount in the Tax-Exempt Debt Service Reserve Account exceeds the Debt Service Reserve Fund Requirement with respect thereto for any reason, the Trustee, at the direction of the Corporation, shall transfer the excess to the Tax-Exempt Loan Account or the Tax-Exempt Revenue Account.

The Trustee shall deposit to the Taxable Debt Service Reserve Account the amount (or a Funding Instrument in lieu thereof), if any, specified in each Supplemental Indenture. On each Bond Payment Date, to the extent there are insufficient moneys in the Taxable Revenue Account, the Capitalized Interest Account or the Taxable Loan Account to make the transfers described in clauses (a) through (f) under the caption "Revenue Fund—Taxable Revenue Account" above, then the amount of such deficiency shall be paid directly from the Taxable Debt Service Reserve Account.

If the Taxable Debt Service Reserve Account is used for the purposes described in the paragraph above or is otherwise less than the Debt Service Reserve Fund Requirement, the Trustee shall restore the Taxable Debt Service Reserve Account to the Debt Service Reserve Fund Requirement with respect thereto by transfers from the Taxable Revenue Account as described in the third paragraph under the caption "Revenue Fund—Taxable Revenue Account" and pursuant to clause (g) under the caption "Revenue Fund—Taxable Revenue Account" above and from the Tax-Exempt Revenue Account as described in the third paragraph under the caption "Revenue Fund – Tax-Exempt Revenue Account" and pursuant to clause (h) under the caption "Revenue Fund—Tax-Exempt Revenue Account" above; provided, however, that principal and interest owing on any Funding Instrument shall first be paid (and paid pro rata if there is more than one Funding Instrument) and after all such amounts are paid in full, amounts necessary to fund the Taxable Debt Service Reserve Account to the applicable Debt Service Reserve Fund Requirement, after taking into account the amount available under the Funding Instrument, shall be deposited into the Taxable Debt Service Reserve Account in accordance with this paragraph. If the full amount required to restore the Taxable Debt Service Reserve Account to the applicable Debt Service Reserve Fund Requirement is not available in such Accounts on such next succeeding Bond Payment Date, the Trustee shall continue to transfer funds from such Accounts as they become available and in accordance with the preceding sentence until the deficiency in the Taxable Debt Service Reserve Account has been eliminated.

On any day that the amount in the Taxable Debt Service Reserve Account exceeds the Debt Service Reserve Fund Requirement with respect thereto for any reason, the Trustee, at the direction of the Corporation, shall transfer the excess to the Taxable Loan Account or the Taxable Revenue Account.

For purposes of determining whether the amount on deposit in the Debt Service Reserve Fund is equal to the Debt Service Reserve Fund Requirement, investments in the Debt Service Reserve Fund shall be valued by the Trustee on each June 30 and December 31.

On the date of redemption of all of the Bonds or payment in full of the Bonds as described under the caption "Satisfaction of Indenture" below, the Trustee shall transfer all amounts in the Debt Service Reserve Fund as directed by the Corporation.

#### **Cost of Issuance Fund**

The Trustee will deposit into the Tax-Exempt Cost of Issuance Account moneys described in any Supplemental Indenture from proceeds of any Tax-Exempt Bonds and any other moneys of the Corporation specified in a Corporation Order or a Supplemental Indenture. The Trustee will deposit into the Taxable Cost of Issuance Account moneys described in any Supplemental Indenture from proceeds of any Taxable Bonds and any other moneys of the Corporation specified in a Corporation Order or a Supplemental Indenture.

Moneys in the Cost of Issuance Fund shall be used, upon Corporation Order, to pay costs of issuance of the Bonds or to reimburse the Corporation for payment of costs of issuance of the Bonds or as otherwise set forth in a Supplemental Indenture. If the Corporation determines that all or any portion of such moneys cannot be so used, then an Authorized Officer of the Corporation may by Corporation Order direct the Trustee to transfer such remaining amounts in the Tax-Exempt Cost of Issuance Account to the Tax-Exempt Loan Account and such remaining amounts in the Taxable Cost of Issuance Account to the Taxable Loan Account.

## **Rebate Fund**

The Trustee will withdraw from the Tax-Exempt Revenue Account and deposit to the Rebate Fund an amount such that the balance held in the Rebate Fund after such deposit is equal to the Rebate Amount calculated as of the Computation Date pursuant to a Corporation Order. Computation of the amounts on deposit in each Fund and of the Rebate Amount shall be furnished to the Trustee by or on behalf of the Corporation in accordance with any Tax Document, as the same may be amended or supplemented in accordance with its terms. The Trustee, upon receipt of a Corporation Order in accordance with any Tax Document, shall pay to the United States of America from the Rebate Fund 100% of the Rebate Amount as of the end of any applicable Computation Date. The Trustee will, upon receipt of a Corporation Order, withdraw from the Tax-Exempt Revenue Account and deposit to the Rebate Fund such amount as shall be required to be paid to the federal government as Excess Interest. Alternatively, upon Corporation Order, the Corporation may from time to time forgive Financed Eligible Loans to satisfy such requirement, in accordance with any Tax Document.

Notwithstanding anything in the Indenture to the contrary, in the event the Corporation and the Trustee shall receive a Favorable Opinion to the effect that it is not necessary under either existing statutes and court decisions or under any then federal legislation to pay any portion of earnings on Funds held under this Indenture or Excess Interest to the United States of America in order to assure the exclusion from gross income for federal income tax purposes of interest on any Tax-Exempt Bonds, then the provisions described under this caption "Rebate Fund" need not be complied with and shall no longer be effective and all or a portion of such amounts on deposit in the Rebate Fund shall be transferred to the Tax-Exempt Revenue Account.

## **Operating Fund**

The Operating Fund is a special fund created with a depository bank of the Corporation and shall be used to pay Program Expenses. The Operating Fund shall be held by such depository bank of the Corporation, and no Registered Owner shall have any right, title or interest in the Operating Fund.

The Corporation will provide the Trustee with a Corporation Order from time to time as to the amounts to be transferred to the Operating Fund. The amount deposited in the Operating Fund by transfer from the Revenue Fund and, if necessary, from the Loan Fund, and the schedule of deposits shall be determined by the Corporation, and each Corporation Order directing such transfers and deposits shall include a statement that the amount requisitioned, is in compliance with the provisions of the Indenture and all Supplemental Indentures thereto, including any applicable limitations set forth therein, or shall be accompanied by a Rating Confirmation with respect to such schedule of transfers and deposits. For so long as the 2004 Bonds and the 2005 Bonds are Outstanding, amounts transferred to the Operating Fund from the Revenue Fund and, if necessary, the Loan Fund, to pay Program Expenses on a monthly basis may not exceed one-twelfth of 1.25% of the outstanding principal amount of Financed Eligible Loans held in the Tax-Exempt Loan Account at the end of the preceding month plus one-twelfth of 1.10% of the outstanding principal amount of Financed Eligible Loans held in the Taxable Loan Account at the end of the preceding month, unless a Rating Confirmation is obtained with respect thereto.

Upon the receipt of such Corporation Order, the Trustee shall withdraw the amount requisitioned from the Revenue Fund, and if necessary, from the Loan Fund (or so much thereof as is then on deposit in such Funds) and transfer the same into the Operating Fund. The Corporation may request that the Trustee pay the requisitioned amount in installments as specified by the Corporation in the Corporation Order. In the event there is not sufficient money on hand in the Revenue Fund and the Loan Fund to transfer the full amount requisitioned, the Trustee shall notify the Corporation and the Corporation shall then determine the amount to be transferred.

## **Transfers to Corporation**

Transfers from the Revenue Fund to the Corporation may be made in accordance with clause (k) under the caption "Revenue Fund—Tax-Exempt Revenue Account" and clause (k) under the caption "Revenue Fund—Taxable Revenue Account" above, provided, however, that no transfer of assets to the Corporation (other than pursuant to the Operating Fund as described above under the caption "Operating Fund") shall be made if there is not on deposit in the Debt Service Reserve Fund an amount equal to at least the Debt Service Reserve Fund Requirement, and unless the Trustee has received (a) a certificate of an Authorized Officer of the Corporation

stating that such transfer shall not impair the Corporation's capacity to comply with its obligations relative to the restrictions upon Excess Interest and Portfolio Yield and to the rebate of certain amounts to the federal government as such obligations would be calculated upon the date of such certificate in accordance with any Tax Document and (b) a certificate of an Authorized Officer of the Corporation to the effect that all rebate liability as calculated pursuant to any Tax Document through the date of such transfer has been paid or deposited in the Rebate Fund; and further provided, that no transfer shall be made to the Corporation unless immediately after taking into account any such transfer, the Aggregate Market Value of the assets in the Trust Estate will be not less than 107% of the unpaid principal amount of all Senior Obligations Outstanding and 102% of the unpaid principal amount of all Senior Obligations and Subordinate Obligations Outstanding, or such other percentages as are acceptable to each Rating Agency, as evidenced by a Rating Confirmation. Subject to compliance with the covenants described under the caption "Tax Covenants" below, the amounts so transferred to the Corporation may be used for any proper purpose of the Corporation and investment earnings thereon shall be the property of the Corporation.

The Corporation has additionally covenanted that, for so long as the 2005 Bonds are outstanding, no transfer of assets from the Revenue Fund to the Corporation shall be made, in accordance with the Indenture, unless a Rating Confirmation is first obtained with respect thereto.

#### **Investment of Funds Held by Trustee**

The Trustee shall invest money held for the credit of any Fund or Account or Subaccount held by the Trustee as directed in writing (or orally, confirmed in writing) by an Authorized Officer of the Corporation or a designee appointed in writing by an Authorized Officer of the Corporation, to the fullest extent practicable and reasonable and on the date directed, in Investment Securities which shall mature or be redeemed at the option of the holder prior to the respective dates when the money held for the credit of such Fund or Account will be required for the purposes intended. In the absence of any such direction, the Trustee shall invest amounts held under the Indenture in those Investment Securities described in clause (i) of the definition of the Investment Securities. Earnings with respect to, and any net gain on the disposition of, any such investments, except on investments contained in the Rebate Fund, shall be deposited into the Revenue Fund. Earnings on amounts contained in the Rebate Fund shall remain in the Rebate Fund.

Money in any Fund constituting a part of the Trust Estate may be commingled for the purpose of making investments and may be used to pay accrued interest on Investment Securities purchased. The Trustee and its affiliates may act as principal or agent in the acquisition or disposition of any Investment Securities.

Notwithstanding the foregoing, the Trustee shall not be responsible or liable for any losses on investments made by it, or for keeping all Funds held by it, fully invested at all times, its only responsibility being to comply with the investment instructions of the Corporation or its designee in a non-negligent manner.

#### **Purchase of Bonds**

Pursuant to the Indenture, any amounts held under the Indenture which are available to redeem Bonds may instead be used to purchase Bonds outstanding under the Indenture at the same times and subject to the same conditions (except as to price) as apply to the redemption of Bonds, except that such purchases made with amounts held under the Indenture shall be made only if the purchase price is less than the required redemption price.

#### **Events of Default**

For the purpose of the Indenture, the following events are "Events of Default":

- (a) default in the due and punctual payment of the principal of or interest on any of the Senior Bonds when due or failure to make any payment due under any other Senior Obligations when due;
- (b) if no Senior Obligations are Outstanding, default in the due and punctual payment of the principal of or interest on any of the Subordinate bonds when due or failure to make any payment due under any other Subordinate Obligations when due;



(c) if no Senior Obligations or Subordinate Obligations are Outstanding, default in the due and punctual payment of the principal of or interest on any of the Junior-Subordinate Bonds when due or failure to make any payment due under any other Junior-Subordinate Obligations when due;

(d) default in the performance or observance of any other of the covenants, agreements, or conditions on the part of the Corporation to be kept, observed, and performed contained in the Indenture or in the Bonds, and continuation of such default for a period of 90 days after written notice thereof by the Trustee to an Authorized Officer of the Corporation;

(e) the occurrence of an Event of Bankruptcy; and

(f) the occurrence of an "event of default" under any Tax Document.

Failure to pay interest carryover amounts or interest on interest carryover amounts will not constitute an Event of Default.

### **Remedy on Default; Possession of Trust Estate**

Upon the happening and continuance of any Event of Default, the Trustee personally or by its attorneys or agents may enter into and upon and take possession of such portion of the Trust Estate as shall be in the custody of others, and all property comprising the Trust Estate, and each and every part thereof, and exclude the Corporation and its agents, servants, and employees wholly therefrom, and have, hold, use, operate, manage, and control the same and each and every part thereof, and in the name of the Corporation or otherwise, as they shall deem best, conduct the business thereof and exercise the privileges pertaining thereto and all the rights and powers of the Corporation and use all of the then existing Trust Estate for that purpose, and collect and receive all charges, income and Revenue of the same and of every part thereof, and after deducting therefrom all expenses incurred under the Indenture and all other proper outlays authorized thereunder, and all payments which may be made as just and reasonable compensation for its own services, and for the services of its attorneys, agents, and assistants, the Trustee shall apply the rest and residue of the money received by the Trustee as follows:

(a) if the principal of none of the Obligations shall have become due, first, to the payment of the interest in default on the Senior Bonds and to the payment of all Corporation Swap Payments (excluding all Termination Payments other than Priority Termination Payments) secured on a parity with the Senior Bonds then due in order of the maturity of the installments thereof, with interest on the overdue installments thereof at the same rates, respectively, as were borne by the Senior Bonds on which such interest shall be in default and any such Corporation Swap Payments as provided in the ISDA Master Agreement then due, such payments to be made ratably to the parties entitled thereto without discrimination or preference; second, to the payment of the interest in default on the Subordinate Bonds and to the payment of all Corporation Swap Payments (excluding all Termination Payments other than Priority Termination Payments) secured on a parity with the Subordinate Bonds then due, in order of the maturity of the installments of such interest and any such Corporation Swap Payments, with interest on the overdue installments thereof at the same rates, respectively, as were borne by the Subordinate Bonds on which such interest shall be in default and any such Corporation Swap Payments as provided in the ISDA Master Agreement then due, such payments to be made ratably to the parties entitled thereto without discrimination or preference; third, to the payment of the interest in default on the Junior-Subordinate Bonds and to the payment of all Corporation Swap Payments (excluding all Termination Payments other than Priority Termination Payments) secured on a parity with such Junior-Subordinate Bonds then due, in order of the maturity of the installments of such interest and any such Corporation Swap Payments, with interest on the overdue installments thereof at the same rates, respectively, as were borne by the Junior-Subordinate Bonds on which such interest shall be in default and any such Corporation Swap Payments as provided in the ISDA Master Agreement then due, such payments to be made ratably to the parties entitled thereto without discrimination or preference, except as may be provided in a Supplemental Indenture; fourth, to pay interest accrued on the carryover amounts of the Senior Bonds, the carryover amounts of the Senior Bonds, interest accrued on the carryover amounts of the Subordinate Bonds, the carryover amounts of the Subordinate Bonds, interest accrued on the carryover amounts of the Junior-Subordinate Bonds, and the carryover amounts of the Junior-Subordinate Bonds, in that order of priority; fifth, to pay unpaid



Termination Payments due as a result of a Swap Provider default under a Swap Facility secured on a parity with the Senior Bonds; sixth, to pay unpaid Termination Payments due as a result of a Swap Provider default under a Swap Facility secured on a parity with the Subordinate Bonds; and, seventh, to pay unpaid Termination Payments due as a result of a Swap Provider default under a Swap Facility secured on a parity with the Junior-Subordinate Bonds; and

(b) if the principal of any of the Obligations shall have become due by declaration of acceleration or otherwise, first, to the payment of the interest in default on the Senior Bonds and all Corporation Swap Payments (excluding all Termination Payments other than Priority Termination Payments) secured on a parity with the Senior Bonds then due, in the order of the maturity of the installments thereof, with interest on overdue installments thereof at the same rates, respectively, as were borne by the Senior Bonds on which such interest shall be in default and such Corporation Swap Payments as provided in the ISDA Master Agreement then due, as the case may be; second, to the payment of the principal of all Senior Bonds then due and any amount owed to a Swap Provider secured on a parity with Senior Obligations under the ISDA Master Agreement, such payments to be made ratably to the parties entitled thereto without discrimination or preference; third, to the payment of the interest in default on the Subordinate Bonds and all Corporation Swap Payments (excluding all Termination Payments other than Priority Termination Payments) secured on a parity with the Subordinate Bonds then due, in the order of the maturity of the installments thereof, with interest on overdue installments thereof at the same rates, respectively, as were borne by the Subordinate Bonds on which such interest shall be in default and such Corporation Swap Payments as provided in the ISDA Master Agreement then due, as the case may be; fourth, to the payment of the principal of all Subordinate Bonds then due and any amount owed to a Swap Provider secured on a parity with Subordinate Obligations under the ISDA Master Agreement, such payments to be made ratably to the parties entitled thereto without discrimination or preference; fifth, to the payment of the interest in default on the Junior-Subordinate Bonds and all Corporation Swap Payments (excluding all Termination Payments other than Priority Termination Payments) secured on a parity with such Junior-Subordinate Bonds then due, in the order of the maturity of the installments thereof, with interest on overdue installments thereof at the same rates, respectively, as were borne by the Junior-Subordinate Bonds on which such interest shall be in default and such Corporation Swap Payments as provided in the ISDA Master Agreement then due, as the case may be; sixth, to the payment of the principal of all Junior-Subordinate Bonds then due and any amount owed to a Swap Provider secured on a parity with Junior-Subordinate Obligations under the ISDA Master Agreement, such payments to be made ratably to the parties entitled thereto without discrimination or preference, except as may be provided in a Supplemental Indenture; seventh, to pay interest accrued on the carryover amounts of the Senior Bonds, the carryover amounts of the Senior Bonds, interest accrued on the carryover amounts of the Subordinate Bonds, the carryover amounts of the Subordinate Bonds, interest accrued on the carryover amounts of the Junior-Subordinate Bonds, the carryover amounts of the Junior-Subordinate Bonds, in that order of priority; eighth, to pay unpaid Termination Payments due as a result of a Swap Provider default under a Swap Facility secured on a parity with the Senior Bonds; ninth, to pay unpaid Termination Payments due as a result of a Swap Provider default under a Swap Facility secured on a parity with the Subordinate Bonds; and, tenth, to pay unpaid termination payments due as a result of a Swap Provider default under a Swap Facility secured on a parity with the Junior-Subordinate Bonds.

#### **Remedies on Default; Sale of Trust Estate**

Upon the happening of any Event of Default and if the principal of all of the Outstanding Obligations shall have been declared due and payable, then and in every such case, and irrespective of whether other remedies authorized shall have been pursued in whole or in part, the Trustee may sell, with or without entry, to the highest bidder the Trust Estate, and all right, title, interest, claim and demand thereto and the right of redemption thereof, at any such place or places, and at such time or times and upon such notice and terms as may be required by law; provided, however, that no such sale shall be made unless the Trustee has received an opinion of Bond Counsel stating that such transfer will not affect adversely the exclusion from federal income taxation of interest on the Bonds afforded by Section 103 of the Code. Upon such sale the Trustee may make and deliver to the purchaser or purchasers a good and sufficient assignment or conveyance for the same, which sale shall be a perpetual bar both at law and in equity against the Corporation and all Persons claiming such properties. No purchaser at any sale shall be bound to see to the application of the purchase money or to inquire as to the authorization, necessity, expediency

or regularity of any such sale. The Trustee is irrevocably appointed the true and lawful attorney-in-fact of the Corporation, in its name and stead, to make and execute all bills of sale, instruments of assignment and transfer and such other documents of transfer as may be necessary or advisable in connection with a sale of all or part of the Trust Estate, but the Corporation, if so requested by the Trustee, shall ratify and confirm any sale or sales by executing and delivering to the Trustee or to such purchaser or purchasers all such instruments as may be necessary, or in the judgment of the Trustee, proper for the purpose which may be designated in such request. In addition, the Trustee may proceed to protect and enforce the rights of the Trustee and the Registered Owners of the Obligations in such manner as counsel for the Trustee may advise, whether for the specific performance of any covenant, condition, agreement or undertaking contained in the Indenture, or in aid of the execution of any power therein granted, or for the enforcement of such other appropriate legal or equitable remedies as may in the opinion of such counsel, be more effectual to protect and enforce the rights aforesaid. Subject to the Trustee's right to be provided with indemnity or other security as provided in the Indenture, the Trustee shall take any such action or actions if requested to do so in writing by the Registered Owners of at least a majority of the collective aggregate principal amount of the Highest Priority Obligations at the time Outstanding.

### **Appointment of Receiver**

In case an Event of Default occurs, and if all of the Outstanding Obligations shall have been declared due and payable and in case any judicial proceedings are commenced to enforce any right of the Trustee or of the Registered Owners under the Indenture or otherwise, then as a matter of right, the Trustee shall be entitled to the appointment of a receiver of the Trust Estate and of the earnings, income or Revenue, rents, issues and profits thereof with such powers as the court making such appointments may confer.

### **Purchase of Properties by Trustee or Registered Owners**

In case of any such sale of the Trust Estate, any Registered Owner or Registered Owners or committee of Registered Owners or the Trustee, may bid for and purchase such property and upon compliance with the terms of sale may hold, retain possession, and dispose of such property as the absolute right of the purchaser or purchasers without further accountability and shall be entitled, for the purpose of making any settlement or payment for the property purchased, to use and apply any Obligations secured by the Indenture and any interest thereon due and unpaid, by presenting such Obligations in order that there may be credited thereon the sum apportionable and applicable thereto out of the net proceeds of such sale, and thereupon such purchaser or purchasers shall be credited on account of such purchase price payable to him or them with the sum apportionable and applicable out of such net proceeds to the payment of or as a credit on the Obligations so presented.

### **Accelerated Maturity**

If an Event of Default shall have occurred and be continuing, the Trustee may declare, or upon the written direction by the Registered Owners of at least a majority of the collective aggregate principal amount of the Highest Priority Obligations then Outstanding, shall declare, the principal of all Obligations then outstanding, and the interest thereon, if not previously due, immediately due and payable, anything in the Obligations or the Indenture to the contrary notwithstanding; provided, however, that a declaration of acceleration upon a default pursuant to clauses (d) and (f) under the caption "Events of Default" above shall require the consent of 100% of the Registered Owners of all of the Obligations then Outstanding.

### **Remedies Not Exclusive**

The remedies conferred upon or reserved to the Trustee or the Registered Owners of Obligations under the Indenture are not intended to be exclusive of any other remedy, but each remedy provided shall be cumulative and shall be in addition to every other remedy given under the Indenture or now or hereafter existing, and every power and remedy given by the Indenture to the Trustee or to the Registered Owners of Obligations, or any supplement to the Indenture, may be exercised from time to time as often as may be deemed expedient. No delay or omission of the Trustee or of any Registered Owner of Obligations to exercise any power or right arising from any default shall impair any such right or power or shall be construed to be a waiver of any such default or to be acquiescence therein.

### **Direction of Trustee**

Upon the happening of any Event of Default, the Registered Owners of at least a majority of the collective aggregate principal amount of the Highest Priority Obligations then Outstanding, shall have the right by an instrument or instruments in writing delivered to the Trustee to direct and control the Trustee as to the method of taking any and all proceedings for any sale of any or all of the Trust Estate, or for the appointment of a receiver, if permitted by law, and may at any time cause any proceedings authorized by the terms of the Indenture to be so taken or to be discontinued or delayed; provided, however, that such Registered Owners shall not be entitled to cause the Trustee to take any proceedings which in the Trustee's opinion would be unjustly prejudicial to non-assenting Registered Owners of Obligations, but the Trustee shall be entitled to assume that the action requested by the Registered Owners of at least a majority of the collective aggregate principal amount of the Highest Priority Obligations then Outstanding will not be prejudicial to any non-assenting Registered Owners unless the Registered Owners of at least a majority of the collective aggregate principal amount of the non-assenting Registered Owners of such Obligations, in writing, show the Trustee how they will be prejudiced. Provided, however, that anything in the Indenture to the contrary notwithstanding, the Registered Owners of at least a majority of the collective aggregate principal amount of the Highest Priority Obligations then Outstanding together with the Registered Owners of at least a majority of the collective aggregate principal amount of all other Obligations then Outstanding shall have the right, at any time, by an instrument or instruments in writing executed and delivered to the Trustee, to direct the method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of the Indenture, or for the appointment of a receiver or any other proceedings, provided that such direction shall not be otherwise than in accordance with the provisions of law and of the Indenture.

### **Right to Enforce in Trustee**

No Registered Owner of any Obligation shall have any right as such Registered Owner to institute any suit, action, or proceedings for the enforcement of the provisions of the Indenture or for the execution of any trust thereunder or for the appointment of a receiver or for any other remedy thereunder, all rights of action thereunder being vested exclusively in the Trustee, unless and until such Registered Owner shall have previously given to the Trustee written notice of a default under the Indenture, and of the continuance thereof, and also unless the Registered Owners of the requisite principal amount of the Obligations then Outstanding shall have made written request upon the Trustee and the Trustee shall have been afforded reasonable opportunity to institute such action, suit or proceeding in its own name, and unless the Trustee shall have been offered reasonable indemnity and security satisfactory to it against the costs, expenses, and liabilities to be incurred therein or thereby and the Trustee for 30 days after receipt of such notification, request, and offer of indemnity, shall have failed to institute any such action, suit or proceeding. It is understood and intended that no one or more Registered Owners of the Obligations shall have the right in any manner whatever by his or their action to affect, disturb, or prejudice the lien of the Indenture or to enforce any right thereunder except in the manner therein provided and for the equal benefit of the Registered Owners of at least a majority of the collective aggregate principal amount of the Obligations then Outstanding.

### **Waivers of Events of Default**

The Trustee may in its discretion waive any Event of Default under the Indenture and its consequences and rescind any declaration of acceleration of Obligations, and shall do so upon the written request of the Registered Owners of at least a majority of the collective aggregate principal amount of the Highest Priority Obligations then Outstanding; provided, however, that there shall not be waived (a) any Event of Default in the payment of the principal of or premium on any Outstanding Obligations at the date of maturity or redemption thereof, or any default in the payment when due of the interest on any such Obligations, unless prior to such waiver or rescission, all arrears of interest or all arrears of payments of principal and premium, if any, and all expenses of the Trustee, in connection with such default shall have been paid or provided for or (b) any default in the payment of amounts due to the United States of America as described under the caption "Tax Covenants" below or any amounts due to the Trustee as indemnity as set forth in the Indenture. In case of any such waiver or rescission, or in case any proceedings taken by the Trustee on account of any such default shall have been discontinued or abandoned or determined adversely to the Trustee, then and in every such case the Corporation, the Trustee and the Registered Owners of Obligations shall be restored to their former positions and rights under the Indenture respectively, but no such waiver or rescission shall extend to or affect any subsequent or other default, or impair any rights or remedies consequent thereon.

## **Certain Covenants of the Corporation**

The Corporation covenants in the Indenture that it will administer, operate and maintain the Program in such a manner as to ensure that the Program and the Financed Eligible Loans (to the extent the same are made under the Act) are in compliance with and will benefit from the benefits available under the Act and the federal program of reimbursement for student loans pursuant to the Act, or from any other federal statute providing for such federal program.

The Corporation covenants in the Indenture that, so long as any Financed Higher Education Act Eligible Loans remain in the Trust Estate and any Bonds are Outstanding, the Corporation (a) will, from and after the date on which it shall have entered into the Guarantee Agreement, maintain the Guarantee Agreement and diligently enforce its rights thereunder; (b) will enter into such other similar or supplemental agreements as shall be required to maintain benefits for all Financed Higher Education Act Eligible Loans covered thereby; and (c) will not voluntarily consent to or permit any rescission of or consent to any amendment to or otherwise take any action under or in connection with the Guarantee Agreement or any similar or supplemental agreement or engage any other guarantor of the Financed Higher Education Act Eligible Loans which in any manner will materially adversely affect the rights of the Registered Owners under the Indenture. The Corporation will also enforce any agreements relating to Alternative Student Loans, including guarantees of the same by third parties.

The Corporation has covenanted in the Indenture that, so long as any Financed Higher Education Act Eligible Loans remain in the Trust Estate and any Bonds are Outstanding, the Corporation (a) will maintain all Certificates of Insurance and diligently enforce its rights thereunder; (b) will enter into such other similar or supplemental agreements as shall be required to maintain benefits for all Financed Higher Education Act Eligible Loans covered thereby, and (c) will not voluntarily consent to or permit any rescission of or consent to any amendment to or otherwise take any action under or in connection with any such Certificates of Insurance or any similar or supplemental agreement which in any manner will materially adversely affect the rights of the Registered Owners under the Indenture.

The Corporation covenants in the Indenture that it will acquire and originate only Eligible Loans with moneys in the Loan Fund and will diligently cause to be collected all principal and interest payments on all the Financed Eligible Loans and other sums to which the Corporation is entitled pursuant to any Student Loan Purchase Agreement, all grants, subsidies, donations, guarantee payments, insurance payments, Special Allowance Payments, Interest Benefit Payments, and all defaulted payments Guaranteed by the Guaranty Agency or Insured by the Secretary which relate to such Financed Eligible Loans. The Corporation shall also make, or cause to be made by a Servicer, every effort to perfect the Corporation's or such Servicer's claims for payment from the Secretary or the Guaranty Agency and/or from any entity or third party guaranteeing Alternative Student Loans, of all payments related to such Financed Higher Education Act Eligible Loans, no later than required by the Act and the applicable Guarantee Agreement and no later than required by any guarantee agreement applicable to any Alternative Student Loan. The Corporation will assign such Financed Higher Education Act Eligible Loans for payment of Guarantee or Insurance benefits within the required period under applicable law and regulations. The Corporation will comply with all United States and Commonwealth statutes, rules and regulations which apply to the Program and to the Financed Eligible Loans.

The Corporation has covenanted in the Indenture that it will cause to be diligently enforced, and take all steps, actions and proceedings reasonably necessary for the enforcement of, all terms, covenants and conditions of all Financed Eligible Loans and agreements in connection therewith, including the prompt payment of all principal and interest payments and all other amounts due the Corporation thereunder. The Corporation will not, except as otherwise permitted under the Indenture, permit the release of the obligations of any borrower under any Financed Eligible Loan and will at all times, to the extent permitted by law, cause to be defended, enforced, preserved and protected the rights and privileges of the Corporation and the Trustee under the Indenture or with respect to each Financed Eligible Loan and agreement in connection therewith. The Corporation will not consent or agree to or permit any amendment or modification of any Financed Eligible Loan or agreement in connection therewith which will in any manner materially adversely affect the rights or security of the Registered Owners under the Indenture. Notwithstanding the foregoing, nothing in the Indenture may be construed to prevent the Corporation from (i) granting a reasonable forbearance to a borrower (unless such forbearance will, in the reasonable judgment of the Corporation, have a material adverse impact on the Corporation's ability to meet its obligations hereunder), (ii) from

settling a default or curing a delinquency on any Financed Eligible Loan on such terms as shall be permitted by law, (iii) charging interest at a lower rate than is required by the Act, (iv) establishing discounts or granting forgiveness of principal of or interest on Financed Eligible Loans, as described in any Supplemental Indenture or so long as such action will not adversely affect the Ratings on any of the Bonds as evidenced by a Rating Confirmation or (v) forgiving amounts owing on any Financed Eligible Loan, provided (A) such forgiveness is in the ordinary course of the Corporation's business or in the judgment of the Corporation is otherwise cost effective, and will not have a material adverse impact on the Corporation's ability to meet its obligations under the Indenture and (B) the Corporation delivers to the Trustee within 90 days of the end of each Fiscal Year a certificate signed by an Authorized Officer setting forth the amount of such loans forgiven during such Fiscal Year and certifying one of the requirements in clause (A) has been satisfied.

Pursuant to the Indenture, the Corporation may also forgive the indebtedness on all or a portion of the Financed Eligible Loans to the extent necessary to prevent interest on any Tax-Exempt Bonds from being includable in the gross income of the owners thereof for federal income tax purposes, or take such other action as may be provided in the written opinion of Bond Counsel (including, but not limited to, the payment of "yield reduction payments" under Section 1.148-5(c) of the Treasury Regulations).

All Financed Eligible Loans which are part of the Trust Estate will be administered and collected either by the Corporation or by a Servicer selected by the Corporation in a competent, diligent and orderly fashion and in accordance with all requirements of the Act, if applicable, the Secretary, if applicable, and the Indenture.

While the Corporation will be owner of the Financed Eligible Loans, subject to the lien of the Indenture, and will be the holder thereof for purposes of the Act to the extent applicable thereto, the Trustee will have all rights with respect to and all interest in the Financed Eligible Loans provided by the Corporation Act and the Act for and on behalf of the Owners. The Financed Eligible Loan notes will be held by the Corporation, directly or by a Servicer as its agent, in the name of and for the account of the Corporation, but subject to the lien of the Trust Estate and the beneficial interest of the Trustee for and on behalf of the Owners.

The Corporation has covenanted in the Indenture that it will cause to be kept and maintained proper books of account relating to the Program in which full, true and correct entries will be made, in accordance with generally accepted accounting principles, of all dealings or transactions of or in relation to the business and affairs of the Corporation, and within 180 days after the end of each Fiscal Year will receive an audit of such books of account by a certified public accountant. A copy of each audit report, annual balance sheet and income and expense statement showing in reasonable detail the financial condition of the Corporation as at the close of each Fiscal Year, and summarizing in reasonable detail the income and expenses for such year, including the transactions relating to the Funds, Accounts and Subaccounts, Outstanding Bond balance by Stated Maturity and redemption history (date, amount, source of funds, distribution of funds per Bond Stated Maturity), must be filed promptly with the Trustee and will be available for inspection by any Registered Owner.

#### **Tax Covenants**

The Corporation covenants in the Indenture that:

(a) it shall at all times do and perform all acts and things necessary or desirable in order to assure that interest paid on the Tax-Exempt Bonds shall, for purposes of federal income taxation, be excludable from the gross income of the recipients thereof, including, but not limited to, such actions as are required to be taken pursuant to any Tax Documents and the Indenture;

(b) it shall not permit at any time or times any of the proceeds of the Bonds or any other funds of the Corporation to be used directly or indirectly to acquire any securities or obligations, the acquisition of which would cause any Tax-Exempt Bond to be or become an "arbitrage bond" as defined in Section 148 of the Code;

(c) it shall take such action as may be necessary to assure that the Portfolio Yield as of the date of final payment of the Tax-Exempt Bonds does not exceed the Bond Yield by an amount greater than

may be consistent with any Tax Documents, including the forgiveness and discharge of borrower payment obligations with respect to the outstanding principal amounts of and any interest due upon any or all of the Financed Eligible Loans upon any such payment date;

(d) unless the Corporation and the Trustee receive a Favorable Opinion, it shall not sell, transfer or otherwise dispose of any Eligible Loans, except for: (i) loan consolidation, combination, serialization or collection purposes and (ii) sales the entire proceeds of which are to be applied to fund the payment of Tax-Exempt Bonds, unless the Corporation determines that adequate provision has been made assuring that such sale, transfer or other disposition does not impair the Corporation's capacity to comply with its obligation relative to the restriction upon Portfolio Yield as such obligation would be calculated upon the date of such sale, transfer or other disposition in accordance with any Tax Documents; and

(e) the Program documents will include the requirement that no borrower on a Financed Eligible Loan nor any "related person," as defined in Section 144(a)(3) of the Code, will pursuant to any arrangement, formal or informal, purchase the Corporation's obligations in an amount related to the amount of such borrower's Financed Eligible Loans.

### **Supplemental Indentures Not Requiring Consent of Registered Owners**

The Corporation and the Trustee may, without the consent of or notice to any of the Registered Owners of any Obligations enter into any indenture or indentures supplemental to the indenture for any one or more of the following purposes:

- (a) to cure any ambiguity or defect or omission in the Indenture;
- (b) to grant to or confer upon the Trustee for the benefit of the Registered Owners any additional benefits, rights, remedies, powers or authorities that may lawfully be granted to or conferred upon the Registered Owners or the Trustee;
- (c) to subject to the Indenture additional revenues, properties or collateral;
- (d) to modify, amend or supplement the Indenture or any indenture supplemental hereto in such manner as to permit the qualification thereof under the Trust Indenture Act of 1939 or any similar federal statute hereafter in effect or to permit the qualification of the Bonds for sale under the securities laws of the United States of America or of any of the states of the United States of America, and, if they so determine, to add to the Indenture or any indenture supplemental hereto such other terms, conditions and provisions as may be permitted by said Trust Indenture Act of 1939 or similar federal statute;
- (e) to evidence the appointment of a separate or co-Trustee or a co-registrar or transfer agent or the succession of a new Trustee, or any additional or substitute Guaranty Agency or Servicer;
- (f) to add such provisions to or to amend such provisions of the Indenture as may in the judgment of the Corporation be necessary or desirable to assure implementation of the Program in conformance with the Act if in the judgment of the Corporation such provisions will in no way impair the existing security of the Registered Owners of any Outstanding Obligations;
- (g) to make any change as shall be necessary in order to obtain and maintain for any of the Bonds an investment grade Rating from a nationally recognized rating service, which changes, in the opinion of the Trustee, are not to the prejudice of the Registered Owner of any of the Obligations;
- (h) to make any changes necessary to comply with the Act, the Regulations or the Code and the regulations promulgated thereunder;

(i) to provide for the issuance of Additional Bonds pursuant to the provisions of the Indenture, including the creation of appropriate Funds, Accounts and Subaccounts with respect to such Additional Bonds;

(j) to make the terms and provisions of the Indenture, including the lien and security interest granted therein, applicable to a Swap Facility, and to modify the Indenture with respect to any particular Swap Facility;

(k) to create any additional Funds or Accounts or Subaccounts under the Indenture deemed by the Trustee to be necessary or desirable;

(l) to amend the Indenture to allow for any Bonds to be supported by a letter of credit or insurance policy or a liquidity agreement, including amendments with respect to repayment to such a provider on a parity with any Bonds or Swap Facility and providing rights to such provider under the Indenture, including with respect to defaults and remedies;

(m) to make any changes in connection with the use of moneys in the Trust Estate to finance Alternative Student Loans or Qualified Institution Loans, subject to receipt of a Rating Confirmation;

(n) to make any other change with a Rating Confirmation; or

(o) to make any other change which, in the judgment of the Trustee, is not to the material prejudice of the Registered Owners of any Obligations.

#### **Supplemental Indentures Requiring Consent of Registered Owners**

Exclusive of Supplemental Indentures described above and subject to the terms and provisions described below, and not otherwise, the Registered Owners of not less than a majority of the collective aggregate principal amount of the Obligations then Outstanding which are affected shall have the right, from time to time, to consent to and approve the execution by the Corporation and the Trustee of such other indenture or indentures supplemental thereto as shall be deemed necessary and desirable by the Corporation for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Indenture or in any Supplemental Indenture; provided, however, that nothing in the Indenture shall permit, or be construed as permitting (a) without the consent of the Registered Owners of all then Outstanding Obligations, (i) an extension of the maturity date of the principal of or the interest on any Obligation, or (ii) a reduction in the principal amount of any Obligation or the rate of interest thereon, or (iii) a privilege or priority of any Obligation or Obligations over any other Obligation or Obligations except as otherwise provided in the Indenture, or (iv) a reduction in the aggregate principal amount of the Obligations required for consent to such Supplemental Indenture, or (v) the creation of any lien other than a lien ratably securing all of the Obligations at any time Outstanding under the Indenture except as otherwise provided therein or (b) any modification of the trusts, powers, rights, obligations, duties, remedies, immunities and privileges of the Trustee without the prior written approval of the Trustee.

#### **Additional Limitation on Modification of Indenture**

None of the provisions of the Indenture shall permit an amendment to the provisions of the Indenture which permits the transfer of all or part of the Financed Higher Education Act Eligible Loans or granting of a security interest therein to any Person other than an Eligible Lender or a Servicer, unless the Act or Regulations are hereafter modified so as to permit the same.

#### **Satisfaction of Indenture**

(a) If the Corporation shall pay, or cause to be paid, or there shall otherwise be paid (i) to the Registered Owners of the Bonds, the principal of and interest on the Bonds, at the times and in the manner stipulated in the Indenture, (ii) to each Swap Provider, all Corporation Swap Payments then due, and (iii) to the United States of America, the amount required to be rebated in satisfaction of its obligations as



described in any Tax Document, then the pledge of the Trust Estate, except the Rebate Fund, which is not pledged under the Indenture, and all covenants, agreements, and other obligations of the Corporation to the Registered Owners of Bonds (other than as described under the caption "Tax Covenants" above) shall thereupon cease, terminate, and become void and be discharged and satisfied. In such event, the Trustee shall execute and deliver to the Corporation all such instruments as may be desirable to evidence such discharge and satisfaction, and the Trustee shall pay over or deliver all money held by it under the Indenture to the party entitled to receive the same under the Indenture. If the Corporation shall pay or cause to be paid, or there shall otherwise be paid, to the Registered Owners of any Outstanding Bonds the principal of and interest on such Bonds, and to each Swap Provider all Corporation Swap Payments then due, at the times and in the manner stipulated in the Indenture and in the Swap Facility such Bonds and each Swap Provider shall cease to be entitled to any lien, benefit, or security under the Indenture, and all covenants, agreements, and obligations of the Corporation to the Registered Owners thereof and each Swap Provider shall thereupon cease, terminate, and become void and be discharged and satisfied.

(b) Bonds or interest installments shall be deemed to have been paid within the meaning of paragraph (a) above if money for the payment or redemption thereof has been set aside and is being held in trust by the Trustee at the Stated Maturity or earlier redemption date thereof. Any Outstanding Bond shall, prior to the Stated Maturity or earlier redemption thereof, be deemed to have been paid within the meaning and with the effect expressed in paragraph (a) above if (i) such Bond is to be redeemed on any date prior to its Stated Maturity and (ii) the Corporation shall have given notice of redemption on said date, there shall have been deposited with the Trustee either money (fully insured by the Federal Deposit Insurance Corporation or fully collateralized by Governmental Obligations) in an amount which shall be sufficient, or Governmental Obligations (including any Governmental Obligations issued or held in book-entry form on the books of the Department of Treasury of the United States of America) the principal of and the interest on which when due will provide money which, together with the money, if any, deposited with the Trustee at the same time, shall be sufficient, to pay when due the principal of, premium, if any, and interest to become due on such Bond on and prior to the redemption date or Stated Maturity thereof, as the case may be. No such deposit shall have the effect described in this paragraph (b) if made during the existence of an Event of Default, unless made with respect to all of the Bonds then Outstanding and no such deposit shall be made unless there is delivered to the Trustee (A) an opinion of Bond Counsel to the effect that such deposit will not adversely affect any exclusion from gross income for federal income tax purposes of interest on any Tax-Exempt Bond and (B) a report of an independent certified public accountant or firm of such accountants verifying the sufficiency of such deposit to pay the principal of, premium, if any, and interest to become due on such Bond on and prior to the redemption date or Stated Maturity thereof, as the case may be. Neither Governmental Obligations nor money deposited with the Trustee as described in this paragraph (b) nor principal or interest payments on any such Governmental Obligations shall be withdrawn or used for any purpose other than, and shall be held irrevocably in trust in an escrow account for, the payment of the principal of and interest on such Bonds. Any cash received from such principal of and interest on such Governmental Obligations deposited with the Trustee, if not needed for such purpose, shall, to the extent practicable, be reinvested in Governmental Obligations maturing at times and in amounts sufficient to pay when due the principal of and interest on such Bonds on and prior to such redemption date or Stated Maturity thereof, as the case may be, and interest earned from such reinvestments shall be paid over to the Corporation, as received by the Trustee, free and clear of any trust, lien, or pledge. Any payment for Governmental Obligations purchased for the purpose of reinvesting cash as aforesaid shall be made only against delivery of such Governmental Obligations. For the purposes of this paragraph (b), "Governmental Obligations" shall mean and include only non-callable direct obligations of the Department of the Treasury of the United States of America or portions thereof (including interest or principal portions thereof), and such Governmental Obligations shall be of such amounts, maturities, and interest payment dates and bear such interest as will, without further investment or reinvestment of either the principal amount thereof or the interest earnings therefrom, be sufficient to make the payments described herein, and which obligations have been deposited in an escrow account which is irrevocably pledged as security for the Bonds. Such term shall not include mutual funds and unit investment trusts.

(c) Any Corporation Swap Payments are deemed to have been paid and the applicable Swap Facility terminated when payment of all Corporation Swap Payments due and payable to each Swap



Provider under its respective Swap Facility have been made or duly provided for to the satisfaction of each Swap Provider and the respective Swap Facility has been terminated.

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## **APPENDIX C**

### **AUDITED FINANCIAL STATEMENTS OF THE CORPORATION**

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**Strothman & Company PSC**

Certified Public Accountants & Advisors



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Audited Financial Statements

**Kentucky Higher Education  
Student Loan Corporation**

June 30, 2004

Audited Financial Statements

**Kentucky Higher Education Student Loan Corporation**

June 30, 2004

<b>Independent Auditors' Report .....</b>	<b>1</b>
<b>Management's Discussion and Analysis (Unaudited) .....</b>	<b>3</b>
<b>Financial Statements</b>	
Balance Sheet .....	8
Statement of Revenues, Expenses and Change in Net Assets .....	9
Statement of Cash Flows .....	10
Notes to Financial Statements .....	12

## Independent Auditors' Report



Board of Directors  
Kentucky Higher Education Student Loan Corporation  
Louisville, Kentucky

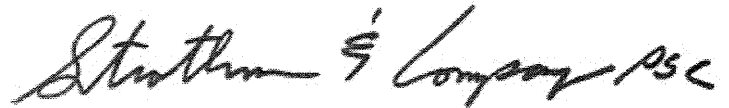
We have audited the accompanying financial statements of each major fund of the Kentucky Higher Education Student Loan Corporation (the Corporation), a blended component unit of Kentucky Higher Education Assistance Authority, (a component unit of the Commonwealth of Kentucky), as of and for the year ended June 30, 2004, which collectively comprise the Corporation's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund of the Corporation as of June 30, 2004, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 3 through 7 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 17, 2004, on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

A handwritten signature in black ink, reading "Stephen S. Longway PSC". The signature is written in a cursive, flowing style.

Louisville, Kentucky  
September 17, 2004

Management's Discussion and Analysis (Unaudited)

**Kentucky Higher Education Student Loan Corporation**

June 30, 2004

The Kentucky Higher Education Student Loan Corporation (the Corporation) is an independent *de jure* municipal corporation established by the Kentucky General Assembly in 1978 to provide a loan finance program for postsecondary students in the Commonwealth of Kentucky. The Corporation functions as a lender of student loans, making loans to parents and students directly; a servicer of student loans; and a secondary market for the purchase of student loans from other lenders. The Corporation funds the origination or acquisition of these student loans by periodically issuing bonds and notes under various debt agreements, including its two general bond resolutions. The Corporation also services education loans and collects defaulted education loans. The Corporation's services and loans are marketed under the registered service mark "The Student Loan People<sup>SM</sup>".

This section of the Corporation's annual financial report presents a discussion and analysis of the Corporation's financial performance for the fiscal year ended June 30, 2004. Please read it in conjunction with the Corporation's financial statements and the notes to the financial statements, which follow this section.

**FINANCIAL HIGHLIGHTS AS OF JUNE 30, 2004:**

The Corporation's total assets at year end were approximately \$1.2 billion, which is an increase of approximately \$38 million or 3% over the prior year.

The Corporation's net student loans at year end were approximately \$979 million, which is an increase of approximately \$172 million or 21% over the prior year.

The Corporation's total revenues for the fiscal year ended June 30, 2004 were approximately \$82 million, which is an increase of approximately \$33 million or 68% from the prior fiscal year end.

The Corporation's fee income for the fiscal year ended June 30, 2004 was approximately \$19 million, which is an increase of approximately \$12 million or 165% from the prior fiscal year end.

The Corporation's interest expense for the fiscal year ended June 30, 2004 was approximately \$14 million, which is a decrease of approximately \$3 million or 20% from the prior fiscal year end.

The Corporation's total other operating expenses (excluding the provision for arbitrage liabilities and principal forgiveness) for the fiscal year were approximately \$39 million, which is an increase of approximately \$15 million or 60% from the prior fiscal year end.

The Corporation incurred approximately \$12 million in principal and interest forgiveness due to certain borrower benefit plans. This expense also reduced the excess yield on certain of the Corporation's outstanding bond obligations.

The Corporation's change in net assets after operating transfers for the fiscal year ended June 30, 2004 was approximately \$17 million, which is an increase of approximately \$12 million or more than double (236%) from the prior fiscal year.

Continued



Management's Discussion and Analysis (Unaudited)--Continued

**Kentucky Higher Education Student Loan Corporation**

June 30, 2004

**OVERVIEW OF THE FINANCIAL STATEMENTS:**

The Corporation's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied on an accrual basis. Under the accrual basis of GAAP, revenues are recognized in the period in which they are earned and expenses are recognized in the period in which they are incurred. These basic financial statements are separated into funds. These requirements, as well as certain governmental accounting pronouncements, require this financial statement presentation.

The three basic financial statements presented within the financial statements are:

Balance Sheet

This statement presents information regarding the Corporation's assets, liabilities and net assets. Net assets represent the total amount of assets less the total liabilities. The balance sheet classifies assets, liabilities and classifies net assets as current, noncurrent, restricted and unrestricted according to restrictions in each general bond resolution.

Statement of Revenues, Expenses and Change in Net Assets

This statement presents the Corporation's interest income, cost of funds, operating expenses and change in net assets for the fiscal year.

Statement of Cash Flows

The Corporation's statement of cash flows is presented using the direct method of reporting, which reflects cash flows from operating, investing, non-capital and capital financing activities.

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Continued

Management's Discussion and Analysis (Unaudited)--Continued

**Kentucky Higher Education Student Loan Corporation**

June 30, 2004

**FINANCIAL ANALYSIS OF THE CORPORATION**

The Corporation's total net assets at June 30, 2004 were approximately \$100 million, which is an increase of approximately \$17 million or 20% over June 30, 2003. Components of the Corporation's balance sheets as of June 30, 2004 and 2003 were as follows:

<b>Net Asset Information June 30, 2004 and 2003</b>	<b>2004</b>	<b>2003</b>	<b>Increase (Decrease)</b>	<b>%</b>
<b>Assets</b>				
Loans	\$ 978,578,931	\$ 806,743,657	\$ 171,835,274	21%
Capital Assets	2,329,161	2,244,707	84,454	4%
Other Assets	192,031,561	326,781,755	(134,750,194)	-41%
<b>Total Assets</b>	<b>\$ 1,172,939,653</b>	<b>\$ 1,135,770,119</b>	<b>\$ 37,169,534</b>	<b>3%</b>
<b>Liabilities and Net Assets</b>				
Short and Long-term debt	\$ 1,045,450,000	\$ 1,023,050,000	\$ 22,400,000	2%
Other Liabilities	27,144,220	29,131,862	(1,987,642)	7%
<b>Total Liabilities</b>	<b>1,072,594,220</b>	<b>1,052,181,862</b>	<b>20,412,358</b>	<b>2%</b>
<b>Net Assets</b>				
Invested in Capital Assets	2,329,161	2,244,707	84,454	4%
Restricted	86,061,379	69,988,080	16,073,299	23%
Unrestricted	11,954,893	11,355,470	599,423	53%
<b>Total Net Assets</b>	<b>100,345,433</b>	<b>83,588,257</b>	<b>16,757,176</b>	<b>20%</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 1,172,939,653</b>	<b>\$ 1,135,770,119</b>	<b>\$ 37,169,534</b>	<b>3%</b>

The increase noted above in the Corporation's total assets is the continuation of a trend of growth in prior years. Total assets grew from approximately \$1.136 billion at June 30, 2003 to approximately \$1.173 billion at June 30, 2004. Net loans outstanding totaled \$979 million at June 30, 2004, a \$172 million increase over June 30, 2003. This increase included \$349 million in loan acquisitions (both originations and purchases) offset by borrower payments, consolidation loan payments and principal forgiveness on the loans. Other assets decreased by \$135 million as a result of improved cash management strategies which converted cash and cash equivalents into loans. During fiscal year 2004, the Corporation drew down a net amount of approximately \$41 million from the 2000 Line of Credit to acquire student loans. The amount was offset by approximately \$19 million in bond maturities. This increase was the largest component of the Corporation's increase in its total liabilities. Other liabilities decreased \$2 million primarily as a result of a decrease in the allowance for arbitrage liabilities.

Continued

Management's Discussion and Analysis (Unaudited)--Continued

**Kentucky Higher Education Student Loan Corporation**

June 30, 2004

The Corporation's change in net assets for the year ended June 30, 2004 was approximately \$17 million, which is an increase of approximately \$12 million or more than double the change in net assets for the year ended June 30, 2003. Components of the Corporation's statements of revenues, expenses and change in net assets as of June 30, 2004 and 2003 were as follows:

**Revenues, Expenses and Change in Net Assets Data**  
**Years Ended June 30, 2004 and 2003**

	<u>2004</u>	<u>2003</u>	<u>Increase (Decrease)</u>	<u>%</u>
<b>Revenues</b>				
Loan Interest Income	\$ 61,455,867	\$ 38,595,613	\$ 22,860,254	59%
Investment Interest Income	1,806,139	3,122,183	(1,316,044)	-42%
<b>Total Interest Income</b>	63,262,006	41,717,796	21,544,210	52%
Fee Income	18,715,709	7,066,613	11,649,096	165%
<b>Total Revenues</b>	<u>81,977,715</u>	<u>48,784,409</u>	<u>33,193,306</u>	68%
<b>Expenses</b>				
Interest Expense on Debt	13,957,461	17,428,209	(3,470,748)	-20%
Provision for Arbitrage Liabilities	(672,944)	(6,641,872)	5,968,928	-90%
Principal Forgiveness	9,672,561	5,514,745	4,157,816	75%
Financing and Origination Fees	6,265,975	5,738,785	527,190	9%
Federal Consolidation Fees	2,417,030	1,739,581	677,449	39%
Personnel and Professional Services	10,482,674	8,038,764	2,443,910	30%
General Administration	20,097,782	8,977,827	11,119,955	124%
<b>Total Expenses</b>	<u>62,220,539</u>	<u>40,796,039</u>	<u>21,424,500</u>	53%
<b>Change in Net Assets Before     Operating Transfers</b>	19,757,176	7,988,370	11,768,806	147%
<b>Transfer to the Authority</b>	<u>(3,000,000)</u>	<u>(3,000,000)</u>	<u>0</u>	
<b>Change in Net Assets</b>	<u>\$ 16,757,176</u>	<u>\$ 4,988,370</u>	<u>\$ 11,768,806</u>	236%

Continued

Management's Discussion and Analysis (Unaudited)--Continued

**Kentucky Higher Education Student Loan Corporation**

June 30, 2004

Interest Income, which includes interest on loans and investments, increased by 52% due to certain loans qualifying for the minimum 9.5% yield allowed under special allowance rules. Therefore, the average yield from interest on loans in FY 2004 increased to 6.74% from 4.26% in FY 2003. Given the declining interest rate environment, investment yields declined from 1.33% in FY 2003 to .81% in FY 2004. Fee income increased due to growth of a portfolio for a large client for whom the Corporation performs third-party servicing activities and to certain reclassifications. Interest on debt decreased by 20% due to declining interest rates on the variable rate bonds outstanding. Average rates declined from 1.87% in FY 2003 to 1.32% in FY 2004. Certain borrower benefits resulted in loan and interest forgiveness of approximately \$12 million which had the effect of reducing the excess yield on certain of the Corporation's outstanding bond obligations. Other operating expenses increased 60% due to costs related to the growing loan portfolio as the Corporation adds loan and servicing volume and to certain reclassifications.

**CONDITIONS AFFECTING FINANCIAL POSITION:**

At June 30, 2004, the Corporation was servicing and committed to purchase student loans from other lenders with a principal balance of approximately \$49 million. The total portfolio of student loans that the Corporation owns, services for other lenders, and collects was approximately \$5.7 billion at June 30, 2004. This is an increase of approximately \$1.5 billion or 35% higher than as of June 30, 2003.

The Corporation continues to experience significant growth in all aspects of its operations and the Corporation's fiscal year 2005 budget reflects continued growth. Efforts to increase the Corporation's lending market share in the Commonwealth and the continued high rate of growth in the client servicing portfolio is expected to promote the sustained growth pattern for the Corporation throughout the coming fiscal year. The Corporation has added additional staff to perform the additional work associated with this significant growth and its anticipated expense increase for fiscal year 2005 reflect the additional costs expected to be incurred as a result of the additional student loan volume.

Available and affordable funds from debt financings enable the Corporation to meet its lending demand for loans originated and purchased. Historically, the Corporation has issued primarily tax-exempt debt. However, since 1997 the Corporation has supplemented its tax-exempt funding with taxable debt at a higher interest cost. Annually, the Corporation receives an allocation from the Commonwealth's Private Activity Bond Allocation committee which authorizes the amount of tax-exempt debt that the Corporation can issue. As of June 30, 2004, the Corporation's tax-exempt debt outstanding was 43% of the total bonds outstanding. In addition to funds provided by debt issuances, the Corporation also has a \$100 million line of credit with Bank of America for loan acquisitions. This line of credit provides additional liquidity in the event that loan demand exceeds the available funds from debt issuances. The Corporation has secured this line of credit through December 31, 2004 and expects to renew or replace this funding source to ensure available funds throughout fiscal year 2005. The Corporation and its trustee monitor the maturities of all debt instruments and the appropriate levels in the debt service and debt service reserve accounts. Approximately \$57 million in bonds will mature during fiscal year 2005 and there are no scheduled bond maturities in fiscal year 2006. The Corporation expects its student loan payment stream to provide adequate cash flows to meet its debt service requirements.

Balance Sheet

Kentucky Higher Education Student Loan Corporation

June 30, 2004

Assets	Education Finance Funds	Operating Fund	Combined Totals
<b>Current</b>			
Cash and Cash Equivalents	\$ 67,999,625	\$ 5,639,133	\$ 73,638,758
Investments		7,673,025	7,673,025
Receivables and Prepaid Expenses	7,021	1,378,023	1,385,044
Accrued Interest Income	16,670,071	3,418	16,673,489
Special Allowance Receivable	13,655,293		13,655,293
Interfund Receivable (Payable)	(868,610)	868,610	0
<b>Total Current Assets</b>	<b>97,463,400</b>	<b>15,562,209</b>	<b>113,025,609</b>
<b>Noncurrent</b>			
Loans, Net	978,578,931		978,578,931
Cash and Cash Equivalents	60,093,237		60,093,237
Deferred Debt Issuance Cost	4,616,813		4,616,813
Deferred Loan Purchase Premiums and Origination Costs, Net	14,295,902		14,295,902
Property and Equipment, Less Accumulated Depreciation		2,329,161	2,329,161
<b>Total Noncurrent Assets</b>	<b>1,057,584,883</b>	<b>2,329,161</b>	<b>1,059,914,044</b>
<b>Total Assets</b>	<b>\$ 1,155,048,283</b>	<b>\$ 17,891,370</b>	<b>\$ 1,172,939,653</b>
<b>Liabilities</b>			
<b>Current</b>			
Accounts Payable and Accrued Expenses	\$ 1,719,792	\$ 3,454,129	\$ 5,173,921
Interest Payable	1,324,273		1,324,273
Bonds/Note Payable	98,200,000		98,200,000
Due to the Authority		153,187	153,187
<b>Total Current Liabilities</b>	<b>101,244,065</b>	<b>3,607,316</b>	<b>104,851,381</b>
<b>Noncurrent</b>			
Bonds/Note Payable	947,250,000		947,250,000
Allowance for Arbitrage Liabilities	20,492,839		20,492,839
<b>Total Noncurrent Liabilities</b>	<b>967,742,839</b>		<b>967,742,839</b>
<b>Total Liabilities</b>	<b>1,068,986,904</b>	<b>3,607,316</b>	<b>1,072,594,220</b>
<b>Net Assets</b>			
Invested in Capital Assets		2,329,161	2,329,161
Restricted	86,061,379		86,061,379
Unrestricted		11,954,893	11,954,893
<b>Total Net Assets</b>	<b>86,061,379</b>	<b>14,284,054</b>	<b>100,345,433</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 1,155,048,283</b>	<b>\$ 17,891,370</b>	<b>\$ 1,172,939,653</b>

See Notes to Financial Statements

Statement of Revenues, Expenses and Change in Net Assets

**Kentucky Higher Education Student Loan Corporation**

Year Ended June 30, 2004

	<b>Education Finance Funds</b>	<b>Operating Fund</b>	<b>Combined Totals</b>
<b>Revenues</b>			
Interest on Loans	\$ 61,097,856	\$ 52,853	\$ 61,150,709
Late Payment Penalties	304,174	984	305,158
Interest on Investments	1,694,133	112,006	1,806,139
Debt Recovery Commission		142,845	142,845
Servicing Fees		6,854,820	6,854,820
Service/Administration Fees		11,718,044	11,718,044
<b>Total Revenues</b>	<b>63,096,163</b>	<b>18,881,552</b>	<b>81,977,715</b>
<b>Expenses</b>			
Interest on Debt	13,957,461		13,957,461
Amortization of Bond Issuance Costs	292,007		292,007
Variable Bond Credit Facility and Remarketing Fees	2,657,558		2,657,558
Reduction in Arbitrage Liabilities	(672,944)		(672,944)
Amortization of Loan Purchase Premiums and Origination Costs	3,316,410		3,316,410
Depreciation and Amortization		1,533,517	1,533,517
Federal Consolidation Fees	2,417,030		2,417,030
Personnel and Professional Services		10,482,674	10,482,674
General Administrative Expenses		5,679,926	5,679,926
Provision for Student Loan Loss	271,625	501,558	773,183
Principal Forgiveness Under Borrower Benefit Programs	9,672,561		9,672,561
Servicing and Administration Fees	11,718,044		11,718,044
Other Expenses	393,112		393,112
<b>Total Expenses</b>	<b>44,022,864</b>	<b>18,197,675</b>	<b>62,220,539</b>
<b>Operating Income</b>	<b>19,073,299</b>	<b>683,877</b>	<b>19,757,176</b>
Transfer to the Authority	(3,000,000)		(3,000,000)
<b>Increase in Net Assets</b>	<b>16,073,299</b>	<b>683,877</b>	<b>16,757,176</b>
<b>Net Assets at Beginning of Year</b>	<b>69,988,080</b>	<b>13,600,177</b>	<b>83,588,257</b>
<b>Net Assets at End of Year</b>	<b>\$ 86,061,379</b>	<b>\$ 14,284,054</b>	<b>\$ 100,345,433</b>

See Notes to Financial Statements

Statement of Cash Flows

Kentucky Higher Education Student Loan Corporation

Year Ended June 30, 2004

	Education Finance Funds	Operating Fund	Combined Totals
<b>Cash Flows From Operating Activities</b>			
Principal Received on Loans	\$ 175,774,555	\$ (38,394)	\$ 175,736,161
Interest on Loans	24,291,157	53,839	24,344,996
Special Allowance	15,899,746		15,899,746
Client Loan Receipts		747,389,696	747,389,696
Servicing Fees		7,117,246	7,117,246
Debt Recovery Commission		183,273	183,273
Loans Purchased, including Premiums	(21,612,995)	(618,553)	(22,231,548)
Loans Originated, including Costs	(335,203,777)		(335,203,777)
Credit Facility Fees	(2,632,205)		(2,632,205)
Loan Receipts Remitted to Clients		(747,103,180)	(747,103,180)
Other Expenses	(14,985,643)	(4,809,077)	(19,794,720)
<b>Net Cash Provided By (Used In) Operating Activities</b>	<b>(158,469,162)</b>	<b>2,174,850</b>	<b>(156,294,312)</b>
<b>Cash Flows From Investing Activities</b>			
Investment Income	1,827,354	115,600	1,942,954
Proceeds from Sales and Maturities of Investments		12,600,000	12,600,000
Purchases of Investments		(13,890,123)	(13,890,123)
<b>Net Cash Provided By (Used In) Investing Activities</b>	<b>1,827,354</b>	<b>(1,174,523)</b>	<b>652,831</b>
<b>Cash Flows From Noncapital Financing Activities</b>			
Proceeds from Debt Issued	91,280,000		91,280,000
Debt Issuance Costs	(170,540)		(170,540)
Debt Principal Payments	(68,880,000)		(68,880,000)
Interest on Debt	(13,935,294)		(13,935,294)
Transfer to the Authority	(3,000,000)		(3,000,000)
<b>Net Cash Provided By Noncapital Financing Activities</b>	<b>5,294,166</b>		<b>5,294,166</b>
<b>Cash Flows From Capital and Related Financing Activities</b>			
Property and Equipment Acquired		(1,633,841)	(1,633,841)
<b>Net Cash Used In Capital and Related Financing Activities</b>		<b>(1,633,841)</b>	<b>(1,633,841)</b>
<b>Net Decrease in Cash and Cash Equivalents</b>	<b>(151,347,642)</b>	<b>(633,514)</b>	<b>(151,981,156)</b>
<b>Cash and Cash Equivalents at Beginning of Year</b>	<b>279,440,504</b>	<b>6,272,647</b>	<b>285,713,151</b>
<b>Cash and Cash Equivalents at End of Year</b>	<b>\$ 128,092,862</b>	<b>\$ 5,639,133</b>	<b>\$ 133,731,995</b>

Continued

Statement of Cash Flows--Continued

**Kentucky Higher Education Student Loan Corporation**

Year Ended June 30, 2004

	Education Finance Funds	Operating Fund	Combined Totals
<b>Operating Income</b>	<b>\$ 19,073,299</b>	<b>\$ 683,877</b>	<b>\$ 19,757,176</b>
Income and Expense Items not Affecting Cash Provided By (Used In)			
Operating Activities			
Investment Income	(1,827,354)	(115,600)	(1,942,954)
Depreciation and Amortization		1,533,517	1,533,517
Loss on Equipment Disposal		15,870	15,870
Amortization of Bond Issuance Costs	292,007		292,007
Amortization of Loan Purchase Premiums and Origination Costs	3,316,410		3,316,410
Interest on Debt	13,957,461		13,957,461
Provision for Loan Losses	271,625	501,558	773,183
Borrower Interest Converted to Principal	(11,648,458)		(11,648,458)
Principal Forgiveness	9,672,561		9,672,561
Interest Forgiveness	2,512,721		2,512,721
Net Change in Fair Value of Investments		2,274	2,274
Items Not Accounted for as Revenues or Expenses			
Principal Received on Loans	175,774,555	(38,394)	175,736,161
Loans Purchased, including Premiums	(21,612,995)	(618,553)	(22,231,548)
Loans Originated, including Costs	(335,203,777)		(335,203,777)
(Increase) Decrease in Assets			
Receivables and Prepaid Expenses	477,824	(398,729)	79,095
Accrued Interest	557,020	1,323	558,343
Special Allowance Receivable	(12,499,187)		(12,499,187)
Interfund Receivable/Payable	(468,896)	468,896	0
Increase (Decrease) in Liabilities			
Accounts Payable and Accrued Expenses	(441,035)	138,811	(302,224)
Allowance for Arbitrage Liabilities	(672,943)		(672,943)
<b>Net Cash Provided By (Used In) Operating Activities</b>	<b>\$ (158,469,162)</b>	<b>\$ 2,174,850</b>	<b>\$ (156,294,312)</b>

See Notes to Financial Statements



Notes to Financial Statements

**Kentucky Higher Education Student Loan Corporation**

June 30, 2004

**Note 1--Description of Business and General Bond Resolutions**

The Kentucky Higher Education Student Loan Corporation (the Corporation) is an independent *de jure* municipal corporation established by the Kentucky General Assembly in 1978 to provide a loan finance program for postsecondary students in the Commonwealth of Kentucky (the "Commonwealth"). Governed by a Board of Directors, the Corporation is authorized to finance loans for students attending eligible postsecondary institutions, service and collect education loans, and issue bonds and notes not to exceed \$1.95 billion in order to carry out its corporate powers and duties. The Corporation's education finance, servicing and collection activities include: (i) the origination and secondary market acquisition of education loans originated pursuant to the Federal Family Education Loan Program (FFELP); (ii) the financing of FFELP Loans; (iii) the servicing of FFELP Loans and other education loans, and (iv) the collection of FFELP Loans and other education loans for other holders on a commission or cost reimbursement basis. The FFELP student loans held, serviced and collected by the Corporation include Federal Stafford Loans (Stafford), Unsubsidized Stafford Loans (Unsubsidized Stafford), Federal Supplemental Loans for Students (SLS), Federal Parent Loans for Undergraduate Students (PLUS), and Federal Consolidation Loans (Consolidations).

The FFELP loans held by the Corporation are insured by the Kentucky Higher Education Assistance Authority (the Authority), as the state guarantee agency, or the U. S. Department of Education (USDE). Loans made prior to October 1, 1993, are 100% insured. Loans made on or after October 1, 1993, are 100% insured against borrowers' death, disability, or bankruptcy and 98% insured against borrowers' default.

The Corporation's General Bond Resolutions (GBRs) and separate Series Resolutions for issue of revenue bonds contain provisions establishing funds and accounts for the segregation of assets and provisions restricting the use of the proceeds of bonds and other funds received.

As of June 30, 2004, the Corporation serviced approximately \$979 million outstanding principal amount of FFELP Loans which are pledged pursuant to the 1983 GBR, the 1997 GBR or the 2000 Line of Credit Trust Agreement and approximately \$4.6 billion of FFELP Loans and other education loans on behalf of other holders, including holders with national lending operations. The majority of such education loans are being serviced by the Corporation pursuant to servicing agreements which do not provide for the acquisition by the Corporation of the education loans serviced. As a servicer of FFELP loans, the Corporation collects student loan remittances and subsequently disburses these remittances to the appropriate lending entities. In addition, the Corporation currently collects approximately \$158 million of FFELP Loans and other education loans for other holders on a commission or cost reimbursement basis. The Corporation's obligations pursuant to such servicing and collection agreements are without recourse to assets pledged to collateralize any Corporation financings.

Notes to Financial Statements--Continued

**Kentucky Higher Education Student Loan Corporation**

June 30, 2004

**Note 2--Summary of Significant Accounting Policies**

(a) Reporting Entity

The Corporation is a blended component unit agency of the Authority (a component unit of the Commonwealth of Kentucky).

(b) Basis of Presentation

The Corporation's basic financial statements are prepared in accordance with Governmental Accounting Standards Board Statement No. 34, "Basic Financial Statements and Management Discussion and Analysis - for State and Local Governments" (GASB 34). The basic financial statements are comprised of fund financial statements and notes to the financial statements. The fund financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America applicable to state government entities, which provide that financial activities operated similarly to private business enterprises be presented as separate proprietary funds and that accounting results be organized by funds to account for specific activities consistent with legal and operating requirements. The Corporation's funds include the Education Finance Funds and the Operating Fund. The Education Finance Funds include loan programs funded individually under financings under the 1983 General Bond Resolution, the 1997 General Bond Resolution and the Line of Credit.

Financial activities operated similarly to private business enterprises and financed through fees for servicing and defaulted loan collection are presented under the Operating Fund. The Corporation follows all applicable Governmental Accounting Standards Board pronouncements, as well as Financial Accounting Standards Board pronouncements and Accounting Principles Board Opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The Corporation uses the accrual basis of accounting.

(c) Loan Losses

As discussed in Note 1, the Corporation's FFELP loans are guaranteed by the Authority. Management of the Corporation believes that the Authority will be able to honor all default claims submitted by the Corporation. However, the Corporation records a provision for loan losses based upon its expected default claims with respect to 98% insured loans and for loans with certain loan servicing violations. The allowance for loan losses on FFELP loans was \$872,581 for loan principal and \$138,985 for accrued interest as of June 30, 2004. Furthermore, the Corporation is required to purchase loans owned by third party customers with certain loan servicing violations. As of June 30, 2004, the allowance for third-party servicing loan losses was \$1,648,266 for loan principal and \$114,830 for accrued interest.

(d) Investments

Investments, which consist principally of securities of the federal government or its agencies and commercial paper, are reported at fair market value. Fair market value is determined by using quoted market prices as of the last day of the fiscal year.

Continued

Notes to Financial Statements--Continued

**Kentucky Higher Education Student Loan Corporation**

June 30, 2004

**Note 2--Summary of Significant Accounting Policies--Continued**

(e) Interest Income on Loans

The Corporation earns interest income on loans from three sources: (1) the USDE for subsidized interest earned while certain students are in certain statuses; (2) special allowance subsidies (discussed in Footnote 6); and (3) the borrowers. All interest is recorded when earned and is shown in the financial statements net of the interest related portion of the provision for loan losses.

(f) Servicing Fees

The Corporation's fees for servicing loans held by third parties are recorded as servicing fee revenue when earned. These third-party loans are not presented on the balance sheet as they are not owned by the Corporation.

(g) Income Taxes

The Corporation is an independent *de jure* municipal corporation and political subdivision of the Commonwealth of Kentucky and is therefore not subject to federal or state income taxes.

(h) Deferred Bond Issuance Costs

Bond issuance costs are deferred and amortized over the life of the bonds, utilizing the bonds outstanding method, which approximates the effective interest method.

(i) Deferred Loan Purchase Premiums and Deferred Loan Origination Costs

Loan purchase premiums and certain origination costs are deferred and amortized over the estimated life of the loans acquired or originated, based on projected balances outstanding, which approximates the effective interest method.

(j) Interfund Eliminations

Receivables and payables among the funds of the Corporation are eliminated in the balance sheet.

(k) Property and Equipment

Office furnishings, equipment, and system development costs are recorded at cost and depreciated over their estimated useful lives using the straight-line method.

(l) Statement of Cash Flows

For the statement of cash flows, the Corporation considers cash and cash equivalents to include money market funds and highly liquid investments which mature within one month of purchase.

Continued

Notes to Financial Statements--Continued

**Kentucky Higher Education Student Loan Corporation**

June 30, 2004

**Note 2--Summary of Significant Accounting Policies--Continued**

(m) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Note 3--Cash, Cash Equivalents and Investments**

Cash, cash equivalents and investments as of June 30, 2004, are summarized below:

Cash	\$	1,807,737
Cash Equivalents		131,924,258
Investments		<u>7,673,025</u>
Total	\$	<u>141,405,020</u>

Deposits, identified as cash in the above summary, are as follows as of June 30, 2004:

	<u>Financial Statement Amount</u>	<u>Bank Balance</u>
Insured (FDIC)	\$ 200,000	\$ 200,000
Uninsured and uncollateralized	<u>1,607,737</u>	<u>1,944,940</u>
Total	<u>\$ 1,807,737</u>	<u>\$ 2,144,940</u>

The following is a summary of investments, including cash equivalents, categorized as of June 30, 2004:

	<u>Category 1</u>	<u>Uncategorized</u>	<u>Total</u>
U.S. Treasury and Government Agency Obligations	\$ 10,844,529		\$ 10,844,529
Government Mutual Funds		\$ 42,977,692	42,977,692
Money Market Securities		<u>85,775,062</u>	<u>85,775,062</u>
Total	<u>\$ 10,844,529</u>	<u>\$ 128,752,754</u>	<u>\$ 139,597,283</u>

Continued

Notes to Financial Statements--Continued

**Kentucky Higher Education Student Loan Corporation**

June 30, 2004

**Note 3--Cash, Cash Equivalents and Investments--Continued**

The Corporation's investments are categorized to give an indication of the level of risk assumed by the Corporation at year-end. Category 1 includes investments that are insured, registered, or for which the securities are held by the Corporation or its agent in the Corporation's name.

**Note 4--Loans**

The Corporation originates, purchases and holds various types of student loans as described in Note 1. The terms of these loans, which vary on an individual basis depending upon loan type and the date the loan was originated, generally provide for repayment in monthly installments of principal and interest over a period of up to thirty years for Consolidation loans and generally up to ten years for other loans. The repayment period begins after a grace period of six months following graduation or loss of qualified student status for the Subsidized and Unsubsidized Stafford loans. The repayment period for Consolidation, SLS and PLUS loans begins within 60 days from the date the loan is fully disbursed. Interest rates on student loans ranged from 2.82% to 12% for the fiscal year ended June 30, 2004 depending upon the type and date of origination of the individual loan.

Loans consist of the following at June 30, 2004:

Stafford – Subsidized	\$ 407,154,009
Stafford – Unsubsidized	291,341,583
PLUS/SLS	22,221,486
Consolidation	258,842,655
Other	<u>1,540,045</u>
Total Gross Loans	981,099,778
Allowance for loan loss	<u>(2,520,847)</u>
Net Loans	978,578,931
Net deferred premium and loan costs	<u>14,295,902</u>
<b>Net Loans and Deferred Premium and Loan Costs</b>	<b><u>\$ 992,874,833</u></b>

All student loans are guaranteed as to principal and accrued interest. In order for the loans to be or remain guaranteed, certain due diligence requirements in loan servicing must be met. As of June 30, 2004, \$2,660,554 of student loans were no longer considered guaranteed due to violation of due diligence requirements.

The Corporation withholds certain origination fees from the loan disbursements on FFELP loans to the borrowers and remits these fees to USDE. The amount of the origination fees is based on a percentage of the gross loan amount.

Continued

Notes to Financial Statements--Continued

**Kentucky Higher Education Student Loan Corporation**

June 30, 2004

**Note 4--Loans--Continued**

The Corporation is also required to pay to USDE certain Lender and Rebate Fees. The amount of the Lender Fees is based on a certain percentage of the gross loan amount on all FFELP loans originated after October 1, 1993 and a certain percentage of the carrying value of the Consolidation loans.

Loan origination costs are capitalized when the loan is made and are amortized using the projected balances outstanding method which approximates the effective interest method, over the estimated economic life of the loan. The capitalized loan origination costs, net of accumulated amortization, at June 30, 2004, were \$14,295,902.

Generally, student loans of the Corporation are pledged as collateral for the various obligations of the Corporation.

**Note 5--Property and Equipment**

A summary of Property and Equipment follows:

	Beginning Balance July 1 2003	Additions	Disposals	Ending Balance June 30 2004
Furniture	\$ 1,412,628	\$ 216,775	\$ 2,562	\$ 1,626,841
Computer Equipment	3,541,862	1,395,348	132,250	4,804,960
Other Equipment	187,585	37,718	16,230	209,073
System Development – Information Services	55,955			55,955
Student Loan Servicing System	541,131			541,131
Debt Recovery System	139,350			139,350
Total Property and Equipment	5,878,511	1,649,841	151,042	7,377,310
Less accumulated depreciation	3,633,804	1,533,517	119,172	5,048,149
<b>Net Property and Equipment</b>	<b>\$ 2,244,707</b>	<b>\$ 116,324</b>	<b>\$ 31,870</b>	<b>\$ 2,329,161</b>

Notes to Financial Statements--Continued

**Kentucky Higher Education Student Loan Corporation**

June 30, 2004

**Note 6--Special Allowance**

The U.S. Department of Education pays a special allowance to the Corporation after the end of each quarter representing supplemental interest on outstanding, insured loans. Certain FFELP loans disbursed during the period from January 1, 2000 through June 30, 2004, receive special allowance at a rate based upon the average of the bond equivalent rates of the 3-month commercial paper rate as reported by the U.S. Federal Reserve. Other eligible loans receive special allowance based on the 91-day U.S. Treasury bill rates. Certain loans financed through bonds dated prior to October 1, 1993 receive a 9.5% minimum rate of return based on provisions of the Higher Education Act of 1965, as amended, and related interpretations by the USDE. Possible changes in legislation and/or USDE interpretations in the future could cause this benefit to be reduced or eliminated; however, management does not expect any such changes to be retroactive.

**Note 7--Principal and Interest Forgiveness**

During fiscal year 2004, the Corporation forgave \$9,672,561 in loan principal and \$2,512,721 in accrued interest for certain borrowers who were teachers or nurses that worked in the Commonwealth of Kentucky and students who completed the academic period for which their loan was made.

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Notes to Financial Statements--Continued

**Kentucky Higher Education Student Loan Corporation**

June 30, 2004

**Note 8--Revenue Bonds**

The balance of revenue bonds at June 30, 2004 and the related activity for the year ended June 30, 2004 is as follows (in thousands):

<u>Series</u>	<u>Scheduled Maturity</u>	<u>Interest Rate</u>	<u>Beginning Balance July 1, 2003</u>	<u>Bond Maturities</u>	<u>New Issues</u>	<u>Ending Balance June 30, 2004</u>
<b><u>1983 General Bond Resolution</u></b>						
1991 E	December 1, 2011	Weekly**	\$ 46,000,000			\$ 46,000,000
1993B	Semi-Annually in various amounts through December 1, 2005	4.90% to 5.30%	55,800,000	\$ (18,880,000)		36,920,000
1996 A	June 1, 2026	Weekly**	25,000,000			25,000,000
2003 A	December 1, 2032	Every 35 Days	20,600,000			20,600,000
2003 B	June 1, 2005	1.65%	20,000,000			20,000,000
<b><u>1997 General Bond Resolution</u></b>						
1997 A-1	May 1, 2027	Every 35 days**	45,250,000			45,250,000
1997 A-2	May 1, 2027	Every 35 days**	45,200,000			45,200,000
1997 B	May 1, 2027	Every 35 days**	44,550,000			44,550,000
1998 A-1	May 1, 2028	Every 28 days**	36,400,000			36,400,000
1998 A-2	May 1, 2028	Every 28 days**	36,400,000			36,400,000
1998 B	May 1, 2028	Every 35 days**	42,200,000			42,200,000
1999 A	May 1, 2029	Every 28 days**	51,350,000			51,350,000
1999 B	May 1, 2029	Every 35 days**	23,650,000			23,650,000
2000 A-1	May 1, 2030	Every 28 days**	42,100,000			42,100,000
2000 A-2	May 1, 2030	Every 28 days**	42,100,000			42,100,000
2000 A-3	May 1, 2030	Every 35 days**	42,050,000			42,050,000
2000 B	May 1, 2030	Every 35 days**	23,750,000			23,750,000
2001 A-1	May 1, 2031	Every 35 days**	59,850,000			59,850,000
2001 A-2	May 1, 2031	Every 35 days**	59,850,000			59,850,000
2001 B	May 1, 2031	Every 35 days**	30,300,000			30,300,000
2002 A-1	May 1, 2032	Every 28 days**	55,450,000			55,450,000
2002 A-2	May 1, 2032	Every 35 days**	55,450,000			55,450,000
2002 A-3	May 1, 2032	Every 35 days**	39,100,000			39,100,000
2003 A-1	May 1, 2033	Every 35 days**	63,700,000			63,700,000
2003 A-2	May 1, 2033	Every 35 days**	16,950,000			16,950,000
Total			<u>\$1,023,050,000</u>	<u>\$ (18,880,000)</u>	<u>\$ -</u>	<u>\$1,004,170,000</u>

\*\* Variable interest rate changes based on specified indices.

Continued



Notes to Financial Statements--Continued

**Kentucky Higher Education Student Loan Corporation**

June 30, 2004

**Note 8--Revenue Bonds--Continued**

All Revenue Bonds except for the Senior Series 1997 A-1 and 1997 A-2, Senior Series 1998 A-1 and 1998 A-2, Senior Series 1999 A, and Senior Series 2000 A-1, 2000 A-2, and Senior Series 2000 A-3 and Senior Series 2001 A-1 and 2001 A-2 and Senior Series 2002 A-1 and 2002 A-2 are tax-exempt issues.

Debt service requirements to maturity or redemption date, assuming interest rates on variable rate debt remains at June 30, 2004 levels, are as follows:

	<b>Principal Repayment Amount (Thousands)</b>		
	<b>83 GBR</b>	<b>97 GBR</b>	<b>Total</b>
Year Ending June 30, 2005	\$ 56,920		\$ 56,920
Year Ending June 30, 2006			
Year Ending June 30, 2007			
Year Ending June 30, 2008			
Year Ending June 30, 2009			
5 Years Ending June 30, 2014	46,000		46,000
5 Years Ending June 30, 2019			
5 Years Ending June 30, 2024			
5 Years Ending June 30, 2029	25,000	\$ 325,000	350,000
5 Years Ending June 30, 2034	<u>20,600</u>	<u>530,650</u>	<u>551,250</u>
Total	<u>\$ 148,520</u>	<u>\$ 855,650</u>	<u>\$ 1,004,170</u>

	<b>Interest Payment Amount (Thousands)</b>		
	<b>83 GBR</b>	<b>97 GBR</b>	<b>Total</b>
Year Ending June 30, 2005	\$ 1,682	\$ 17,272	\$ 18,954
Year Ending June 30, 2006	1,499	15,396	16,895
Year Ending June 30, 2007	1,499	15,396	16,895
Year Ending June 30, 2008	1,499	15,396	16,895
Year Ending June 30, 2009	1,499	15,396	16,895
5 Years Ending June 30, 2014	5,615	76,978	82,593
5 Years Ending June 30, 2019	3,732	76,978	80,710
5 Years Ending June 30, 2024	3,732	76,978	80,710
5 Years Ending June 30, 2029	2,471	69,085	71,556
5 Years Ending June 30, 2034	<u>1,293</u>	<u>19,780</u>	<u>21,073</u>
Total	<u>\$ 24,521</u>	<u>\$ 398,655</u>	<u>\$ 423,176</u>

All assets of the 1983 General Bond Resolution Fund and 1997 General Bond Resolution Fund are pledged for repayment of the specific bond issues under each resolution.

Notes to Financial Statements--Continued

**Kentucky Higher Education Student Loan Corporation**

June 30, 2004

**Note 9--Line of Credit**

The Corporation has a Line of Credit Agreement with Bank of America, N.A., providing for advances to the Corporation not to exceed an aggregate outstanding principal balance of \$100 million. The borrowing period ends December 31, 2004. During the year ended June 30, 2004, the Corporation drew down \$91,280,000 and made principal payments of \$50,000,000 on this line of credit. At June 30, 2004, there was \$41,280,000 outstanding.

**Note 10--Allowance for Arbitrage Liabilities**

Certain of the Corporation's tax-exempt bond issues subject the Corporation to potential arbitrage liabilities under U.S. tax law. Arbitrage liabilities, under current federal income tax law regarding tax-exempt bond issues, consist of three types; (1) yield adjustment payments, (2) forgiveness and (3) arbitrage rebate. At June 30, 2004, the Corporation is reporting a liability for yield adjustment payments and forgiveness of \$20,308,540 and for arbitrage rebate of \$184,299.

The determination of excess yield on acquired purpose investments is cumulative over the life of the applicable bond series, as is the determination of arbitrage rebate on non-purpose investments, except for variable rate bonds for which arbitrage rebate is generally determined for each five-year period without retroactivity.

Yield adjustment payments, which also relate to yield restriction on acquired purpose investments, are applicable to the 1991 Series D & E Bonds, 1996 Series A, Subordinate Series 1997 B, Senior Series 1998 B, Senior Series 1999 B, Senior Series 2000 B, Senior Series 2001 B, and any future issues except certain refunding issues. The allowable yield is 2% above the bond yield (arbitrage yield), with the federal special allowance included in income. The loss of tax-exempt status may be avoided by rebating the excess yield to the U.S. Treasury every 10 years, and upon final maturity of the bonds.

Forgiveness is applicable to the 1991 Series B & C, 1993 Series A, B & C, 1994 Series A & B, 1995 Series A, B & C, 1996 Series B, and 1997 Series A, B, C & D bonds. In general, a yield restriction is imposed on acquired purpose investments, designating the allowable yield as 1.5% or 2.0% above the bond yield (arbitrage yield). The loss of tax-exempt status may be avoided by partial forgiveness of the applicable student loans. Forgiveness can be applied upon maturity of the bonds or as otherwise prescribed by the bond resolutions.

Arbitrage rebate is applicable to all of the Corporation's tax-exempt bonds except the 1985 Series A. With certain limited exceptions, income earned on non-purpose investments (investments other than student loans), which exceeds the bond yield (arbitrage yield), must be rebated to the U.S. Treasury. Payments of at least 90% are due every five years after the year of issuance, and upon final maturity of bonds.

Notes to Financial Statements--Continued

**Kentucky Higher Education Student Loan Corporation**

June 30, 2004

**Note 11--Credit and Liquidity Facilities and Bond Remarketing**

The 1991 Series E and 1996 A Bonds are collateralized with Standby Bond Purchase Agreements, pursuant to which Landesbank Hessen-Thüringen Girozentrale will purchase any bonds not remarketed. The 1991 Series E Bonds and the 1996 Series A Bonds also have a Municipal Bond Insurance Policy issued by AMBAC Indemnity Corporation and MBIA Insurance Corporation, respectively, which collateralizes payment of principal and interest on the bonds. The Standby Bond Purchase Agreements expires December 1, 2011 for the 1991 Series E Bonds and December 31, 2015 for the 1996 A Bonds. Unless it is renewed, the AMBAC Municipal Bond Insurance Policy extends through the term of the 1991 Series E Bonds, December 1, 2011 and the MBIA Municipal Bond Insurance Policy extends through the term of the 1996 Series A Bonds, June 1, 2026.

The Corporation pays certain fees with respect to its variable rate bonds to auction agents, broker dealers, market agents, remarketing agents, and tender agents for remarketing bonds or conducting auctions of bonds. These arrangements are generally cancellable with prior notice by either party.

**Note 12--Retirement Plan**

The Corporation provides retirement benefits to all full-time employees through the Kentucky Retirement System (KRS). KRS is a multiple-employer, defined benefit plan sponsored by the Commonwealth of Kentucky, which provides retirement, disability, and death benefits. The Corporation contributed 5.89% of gross wages for the year ended June 30, 2004. The employees contributed 5% of their gross wages to the plan for the year ended June 30, 2004. Such rates are intended to provide for normal costs on a current basis, plus an amount equal to the amortization of unfunded past service costs over thirty years, using the level percentage of payroll method. These contribution rates are determined by the Board of Trustees of KRS each biennium. The payroll of employees covered by the retirement plan was \$9,588,117 for the year ended June 30, 2004. Total payroll for the year ended June 30, 2004 was \$10,337,111. KRS participants have fully vested interests after the completion of sixty months of service, twelve months of which are current service. The KRS contribution requirement for the year ended June 30, 2004 was \$1,044,163, which consisted of employer contributions of \$564,750 and \$479,413 from employees in 2004. Although separate measurements of assets and pension benefit obligation are not available for individual employers, KRS's annual financial report (which is a matter of public record) contains this information for KRS as a whole.

**Note 13--Related Party Transactions**

The Corporation maintains a board of directors that mirrors the Authority's board of directors. In accordance with KRS 164.746 and 164A.050, the Corporation and the Authority maintain a board comprised of ten members appointed to the Authority's board by the Governor and five ex officio voting members.

Continued

Notes to Financial Statements--Continued

**Kentucky Higher Education Student Loan Corporation**

June 30, 2004

**Note 13--Related Party Transactions--Continued**

During the year ended June 30, 2004, the Corporation entered into a shared services agreement with the Authority that pertains to Information Processing Services and Technology, Collection Services, Internal Audit, Executive Management and Professional Support Services, Clerical Administrative and Technical Support Services, Creative Services, and Cooperative Procurement. During the year ended June 30, 2004, the Corporation provided services to the Authority valued at \$5,418,207. Also during the year ended June 30, 2004, the Authority provided services to the Corporation valued at \$2,157,653. The Authority paid the Corporation \$2.8 million for shared services during the year and the Corporation maintains a receivable at year-end for the remaining \$602,554.

The Corporation also maintains a loan origination and disbursement services agreement with the Authority. During the year ended June 30, 2004, the Corporation paid the Authority \$430,427 for loan origination and disbursement services.

Pursuant to a separate agreement, the Corporation provides escrow services for federal funds restricted for default aversion activities. During the fiscal year ended June 30, 2004, the Corporation expended \$814,579 of the escrowed funds on behalf of the Authority. At year-end, the balance of escrowed funds totaled \$703,201.

The Corporation reimburses the Authority for all direct postage changes related to the Corporation. The Corporation paid the Authority \$1,021,056 during the year ended June 30, 2004 for postage reimbursement. As of June 30, 2004, the Corporation owed the Authority an additional \$52,540.

During the year ended June 30, 2004, the Corporation made transfers totaling \$3 million to the Authority for support of state student financial aid programs, as approved by the Corporation's Board of Directors, pursuant to Section 508(c) of the 1983 General Bond Resolution.

**Note 14--Net Assets**

Restricted net assets consist of net assets of the Education Finance Funds as required by the 1983 and 1997 General Bond Resolutions, the separate Series Resolutions, and Line of Credit Agreements. Pursuant to action of the Board of Directors, unrestricted net assets at June 30, 2004 are reserved for the Corporation's operating expenses for the upcoming fiscal year.

Notes to Financial Statements--Continued

**Kentucky Higher Education Student Loan Corporation**

June 30, 2004

**Note 15--Operating Leases**

The Corporation leases office space and equipment under agreements expiring through 2009. The following are the approximate minimum lease commitments under operating leases:

<u>Year Ending June 30,</u>	
2005	\$ 775,000
2006	789,000
2007	714,000
2008	212,000
2009	194,000

**Note 16--Commitments and Contingencies**

The Corporation has entered into loan purchase contracts with various eligible lenders. Subject to the terms and conditions of these agreements, the Corporation on June 30, 2004, had plans to purchase approximately \$49.5 million of loans. These contracts cannot be terminated by either party.

**Note 17--Subsequent Events-2004 Bond Issue**

On August 10, 2004, the Corporation issued \$350,000,000 of Student Loan Revenue Bonds to continue its student loan finance program. The \$202,600,000 2004 Series A & B Tax Exempt Bonds are scheduled to mature on June 1, 2034, and bear interest rates that change every 35 days based on specified indices. The \$147,400,000 2004 Series A Taxable Bonds are scheduled to mature on June 1, 2034, and bear interest rates that change every 28 days based on specified indices.

**FORM OF OPINION OF BOND COUNSEL  
RELATING TO THE SERIES 2005A-1, SERIES 2005A-2, SERIES 2005A-3 AND SERIES 2005B-1 BONDS**

September 8, 2005

Kentucky Higher Education  
Student Loan Corporation  
Louisville, Kentucky

**\$190,000,000  
Kentucky Higher Education Student Loan Corporation  
Student Loan Revenue Bonds  
Senior Series 2005A-1, A-2, A-3  
and  
Subordinate Series 2005B-1**

We have acted as Bond Counsel to the Kentucky Higher Education Student Loan Corporation (the "Corporation"), an independent de jure municipal corporation and political subdivision of the Commonwealth of Kentucky, in connection with the issuance by the Corporation on the date hereof of \$190,000,000 aggregate principal amount of its Student Loan Revenue Bonds, Senior Series 2005A-1 (the "2005A-1 Bonds"), Senior Series 2005A-2 (the "2005A-2 Bonds"), Senior Series 2005A-3 (the "2005A-3 Bonds") and Subordinate Series 2005B-1 (the "2005B-1 Bonds") (collectively, the "2005A-1/A-2/A-3/B-1 Bonds").

The 2005A-1/A-2/A-3/B-1 Bonds have been authorized and issued pursuant to Sections 164A.010 to 164A.240, inclusive, of the Kentucky Revised Statutes, as amended (the "Act"), a resolution of the board of directors of the Corporation adopted on August 25, 2005 (the "Bond Resolution"), and an Indenture of Trust, dated as of August 1, 2004, as previously supplemented, and a Second Supplemental Indenture of Trust, dated as of September 1, 2005 (collectively, the "Indenture"), each between the Corporation and Wells Fargo Bank, N.A., as trustee (the "Trustee"). The Indenture provides that the 2005A-1/A-2/A-3/B-1 Bonds are to be issued to provide funds to the Corporation to originate and acquire Eligible Loans to make a deposit to the Debt Service Reserve Fund created under the Indenture and to pay certain costs and other expenses of the Corporation associated with the issuance of the 2005A-1/A-2/A-3/B-1 Bonds. Any capitalized term used herein and not defined herein shall have the same meaning ascribed thereto in the Indenture unless the context shall clearly otherwise require.

The 2005A-1/A-2/A-3/B-1 Bonds are issued as fully registered bonds in the denominations set forth in the Indenture, and are dated, mature on the date and in the principal amounts, bear interest at the rates, are payable and are subject to redemption and in certain cases mandatory tender prior to maturity, as provided in the Indenture. The 2005A-1 Bonds, the 2005A-2 Bonds and the 2005A-3 Bonds constitute Senior Bonds under the Indenture, and are entitled to the equal benefit, protection and security of the provisions of the Indenture which relate to Senior Obligations. The 2005B-1 Bonds constitute Subordinate Bonds under the Indenture, and are entitled to the equal benefit, protection and security of the provisions of the Indenture which relate to Subordinate Obligations.

In our capacity as Bond Counsel, we have examined the Indenture, a certified transcript of proceedings relating to the authorization, sale, issuance and delivery of the 2005A-1/A-2/A-3/B-1 Bonds, a certified copy of the Bylaws of the Corporation, certificates of public officials, and such other documents and instruments as we have deemed necessary for the purpose of rendering this opinion. As to questions of fact material to our opinion, we have relied upon the certified proceedings, including the representations therein, and other certifications of officials furnished to us, without undertaking to verify the same by independent investigation. We have also examined the Act and such other statutes, regulations and law as we have deemed necessary under the circumstances.

Based upon the foregoing, and on laws, regulations, rulings and judicial decisions existing as of the date hereof, we are of the opinion that:

1. The Corporation is duly organized and existing as an independent de jure municipal corporation and political subdivision of the Commonwealth of Kentucky with full power and authority to adopt the Bond Resolution, to issue the 2005A-1/A-2/A-3/B-1 Bonds and to perform its obligations under the Indenture. The Bond Resolution has been duly and validly adopted by the Corporation and is in full force and effect.

2. The Indenture has been duly authorized, executed and delivered by the Corporation and, assuming due authorization, execution and delivery thereof by the Trustee, the Indenture is the legal, valid and binding obligation of the Corporation enforceable in accordance with its terms. The Indenture creates a valid pledge, to secure payment of the principal of and interest on the 2005A-1/A-2/A-3/B-1 Bonds, of the Revenues and any other amounts (including proceeds of the sale of the 2005A-1/A-2/A-3/B-1 Bonds) held by the Trustee in any Fund established pursuant to the Indenture, except the Rebate Fund and the Operating Fund, subject to provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture. Pursuant to Section 164A.100 of the Act, such pledge is valid and binding and the assets pledged are immediately subject to the lien of such pledge without any physical delivery thereof or further act, and the lien of such pledge is valid and binding as against all parties having claims of any kind in tort, contract or otherwise against the Corporation, irrespective of whether such parties have notice thereof.

3. The 2005A-1/A-2/A-3/B-1 Bonds have been duly authorized, executed and delivered by the Corporation and are valid and binding special, limited obligations of the Corporation, payable solely from the Trust Estate pledged therefor pursuant to the Indenture, and entitled to the protections, benefits and security of the Indenture. The 2005A-1/A-2/A-3/B-1 Bonds do not constitute an indebtedness, liability or obligation of the Commonwealth of Kentucky or any political subdivision thereof. Neither the faith and credit nor the taxing power of the Commonwealth of Kentucky or any political subdivision thereof is pledged to the payment of the principal of or interest on the 2005A-1/A-2/A-3/B-1 Bonds.

4. Under existing laws, regulations, rulings and judicial decisions, interest on the 2005A-1 Bonds and the 2005B-1 Bonds (collectively, the "Tax-Exempt Bonds") is excluded from gross income for federal income tax purposes. The opinion described in the preceding sentence assumes the accuracy of certain representations and compliance by the Corporation with covenants designed to satisfy the requirements of the Internal Revenue Code of 1986, as amended (the "Code") that must be met subsequent to the issuance of the Tax-Exempt Bonds. Failure to comply with such requirements could cause interest on the Tax-Exempt Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Tax-Exempt Bonds. The Corporation has covenanted to comply with such requirements. We are further of the opinion that interest on the Tax-Exempt Bonds constitutes a specific preference item for purposes of the alternative minimum tax. We express no opinion regarding other federal tax consequences arising with respect to the Tax-Exempt Bonds.

Interest on the 2005A-2 Bonds and the 2005A-3 Bonds is not excludable from gross income under Section 103 of the Code.

The accrual or receipt of interest on the 2005A-1/A-2/A-3/B-1 Bonds may otherwise affect the federal income tax liability of the owners of the 2005A-1/A-2/A-3/B-1 Bonds. The extent of these other tax consequences will depend upon such owner's particular tax status and other items of income or deduction. We express no opinion regarding any such consequences.

5. Under existing statutes of the Commonwealth of Kentucky, the 2005A-1/A-2/A-3/B-1 Bonds and the income thereon and the transfer thereof, including any profit made on the sale thereof, shall at all times be exempt from taxation or assessment of any type by the Commonwealth of Kentucky, its agencies and departments and by all political subdivisions within the Commonwealth of Kentucky.

Our opinions in paragraphs 2 and 3 of this letter are qualified to the extent that (a) the enforceability of the 2005A-1/A-2/A-3/B-1 Bonds and the Indenture and the rights of the registered owners of the 2005A-1/A-2/A-3/B-1 Bonds may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights generally heretofore or hereafter enacted, (b) the enforceability thereof may be limited by the

application of general principles of equity and (c) the enforcement of such rights may also be subject to the exercise of judicial discretion in appropriate cases.

The scope of our engagement has not extended beyond the examinations and the rendering of the opinions expressed herein. The opinions expressed herein are based on existing law as of the date hereof and we express no opinion herein as of any subsequent date or with respect to any pending legislation or as to any other matters.

Very truly yours,



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**FORMS OF OPINIONS OF BOND COUNSEL REGARDING CERTAIN  
FEDERAL INCOME TAX ISSUES RELATING TO THE SERIES 2005 TAXABLE BONDS**

[Date of Issuance]

Kentucky Higher Education  
Student Loan Corporation  
Louisville, Kentucky

\$[ ]  
**Kentucky Higher Education Student Loan Corporation**  
**Student Loan Revenue Bonds**  
**Senior Series 2005A-\_\_**

We have acted as Bond Counsel to the Kentucky Higher Education Student Loan Corporation (the "Corporation"), an independent de jure municipal corporation and political subdivision of the Commonwealth of Kentucky, in connection with the issuance by the Corporation on the date hereof of \$ \_\_\_\_\_ aggregate principal amount of its Student Loan Revenue Bonds, Senior Series 2005A-\_\_ (the "2005A-\_\_ Bonds").

The 2005A-\_\_ Bonds have been authorized and issued pursuant to Sections 164A.010 to 164A.240, inclusive, of the Kentucky Revised Statutes, as amended (the "Act"), a resolution of the board of directors of the Corporation adopted on August 25, 2005 (the "Bond Resolution"), and an Indenture of Trust, dated as of August 1, 2004, as previously supplemented and amended, and a [ ] Supplemental Indenture of Trust, dated as of \_\_\_\_\_, 200\_\_ (collectively, the "Indenture"), each between the Corporation and Wells Fargo Bank, N.A., as trustee (the "Trustee"). The Indenture provides that the 2005A-\_\_ Bonds are to be issued to provide funds to the Corporation to originate and acquire Eligible Loans, to make a deposit to the Debt Service Reserve Fund created under the Indenture and to pay certain costs and other expenses of the Corporation associated with the issuance of the 2005A-\_\_ Bonds. Any capitalized term used herein and not defined herein shall have the same meaning ascribed thereto in the Indenture unless the context shall clearly otherwise require.

The 2005A-\_\_ Bonds are issued as fully registered bonds in the denominations set forth in the Indenture, and are dated, mature on the date and in the principal amounts, bear interest at the rates, are payable and are subject to redemption prior to maturity, as provided in the Indenture. The 2005A-\_\_ Bonds constitute Senior Bonds under the Indenture, and are entitled to the equal benefit, protection and security of the provisions of the Indenture which relate to Senior Obligations.

In our capacity as Bond Counsel, we have examined the Indenture, a certified transcript of proceedings relating to the authorization, sale, issuance and delivery of the 2005A-\_\_ Bonds, a certified copy of the Bylaws of the Corporation, certificates of public officials, and such other documents and instruments as we have deemed necessary for the purpose of rendering this opinion. As to questions of fact material to our opinion, we have relied upon the certified proceedings, including the representations therein, and other certifications of officials furnished to us, without undertaking to verify the same by independent investigation. We have also examined the Act and such other statutes, regulations and law as we have deemed necessary under the circumstances.

Based upon the foregoing, and on laws, regulations, rulings and judicial decisions existing as of the date hereof, we are of the opinion that:

1. The Corporation is duly organized and existing as an independent de jure municipal corporation and political subdivision of the Commonwealth of Kentucky with full power and authority to adopt the Bond

Resolution, to issue the 2005A-\_\_ Bonds and to perform its obligations under the Indenture. The Bond Resolution has been duly and validly adopted by the Corporation and is in full force and effect.

2. The Indenture has been duly authorized, executed and delivered by the Corporation and, assuming due authorization, execution and delivery thereof by the Trustee, the Indenture is the legal, valid and binding obligation of the Corporation enforceable in accordance with its terms. The Indenture creates a valid pledge, to secure payment of the principal of and interest on the 2005A-\_\_ Bonds, of the Revenues and any other amounts (including proceeds of the sale of the 2005A-\_\_ Bonds) held by the Trustee in any Fund established pursuant to the Indenture, except the Rebate Fund and the Operating Fund, subject to provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture. Pursuant to Section 164A.100 of the Act, such pledge is valid and binding and the assets pledged are immediately subject to the lien of such pledge without any physical delivery thereof or further act, and the lien of such pledge is valid and binding as against all parties having claims of any kind in tort, contract or otherwise against the Corporation, irrespective of whether such parties have notice thereof.

3. The 2005A-\_\_ Bonds have been duly authorized, executed and delivered by the Corporation and are valid and binding special, limited obligations of the Corporation, payable solely from the Trust Estate pledged therefor pursuant to the Indenture, and entitled to the protections, benefits and security of the Indenture. The 2005A-\_\_ Bonds do not constitute an indebtedness, liability or obligation of the Commonwealth of Kentucky or any political subdivision thereof. Neither the faith and credit nor the taxing power of the Commonwealth of Kentucky or any political subdivision thereof is pledged to the payment of the principal of or interest on the 2005A-\_\_ Bonds.

4. Interest on the 2005A-\_\_ Bonds is not excludable from gross income under Section 103 of the Internal Revenue Code of 1986, as amended.

The accrual or receipt of interest on the 2005A-\_\_ Bonds may otherwise affect the federal income tax liability of the owners of the 2005A-\_\_ Bonds. The extent of these other tax consequences will depend upon such owner's particular tax status and other items of income or deduction. We express no opinion regarding any such consequences.

5. Under existing statutes of the Commonwealth of Kentucky, the 2005A-\_\_ Bonds and the income thereon and the transfer thereof, including any profit made on the sale thereof, shall at all times be exempt from taxation or assessment of any type by the Commonwealth of Kentucky, its agencies and departments and by all political subdivisions within the Commonwealth of Kentucky.

Our opinions in paragraphs 2 and 3 of this letter are qualified to the extent that (a) the enforceability of the 2005A-\_\_ Bonds and the Indenture and the rights of the registered owners of the 2005A-\_\_ Bonds may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights generally heretofore or hereafter enacted, (b) the enforceability thereof may be limited by the application of general principles of equity and (c) the enforcement of such rights may also be subject to the exercise of judicial discretion in appropriate cases.

The scope of our engagement has not extended beyond the examinations and the rendering of the opinions expressed herein. The opinions expressed herein are based on existing law as of the date hereof and we express no opinion herein as of any subsequent date or with respect to any pending legislation or as to any other matters.

Very truly yours,

[Date of Issuance]

Kentucky Higher Education Student Loan Corporation  
UBS Financial Services Inc.  
Wells Fargo Bank, N.A.

Re: Kentucky Higher Education Student Loan Corporation Student Loan Revenue Bonds, Series  
2005A-\_\_ Bonds  
Certain Federal Income Tax Issues

Ladies and Gentlemen:

We have acted as bond counsel to the Kentucky Higher Education Student Loan Corporation (the "Corporation"), an independent de jure municipal corporation and political subdivision of the Commonwealth of Kentucky, in connection with the issuance by the Corporation on the date hereof of \$\_\_\_\_\_ aggregate principal amount of its Student Loan Revenue Bonds, Series 2005A-\_\_ (the "Series 2005A-\_\_ Bonds"). In this regard, the Corporation has asked us to render our opinion concerning certain federal income tax issues associated with the issuance of the Series 2005A-\_\_ Bonds. Terms not independently defined herein have the same meaning as ascribed to them in the Resolution, as defined below.

This opinion will be rendered to support the promotion and marketing of the Series 2005A-\_\_ Bonds. Each purchaser of the Series 2005A-\_\_ Bonds should seek advice based on their particular circumstances from an independent advisor.

In addition to certain facts, assumptions and representations set forth below, our opinions are based on applicable provisions of the Internal Revenue Code of 1986, as amended (the "Code"), the Treasury Regulations promulgated thereunder (the "Regulations") and interpretations thereof by the Internal Revenue Service (the "Service") and the courts having jurisdiction over such matters, each as of the date hereof. There can be no assurance, however, that the Code, the Regulations and the interpretations thereof by the Service or the courts will not change in a manner which would preclude us from rendering similar opinions in the future. Moreover, any such changes in the Code, the Regulations or the interpretations thereof may have a retroactive effect.

The opinions further depend on the facts and circumstances surrounding the issuance of the Series 2005A-\_\_ Bonds. In the event such facts and circumstances differ from your representations concerning the foregoing, the facts set forth herein or the descriptions set forth in the Official Statement, as defined below, our conclusions could differ from those set forth herein.

#### **I. FACTUAL MATTERS**

The Series 2005A-\_\_ Bonds have been authorized and issued pursuant to Sections 164A.010 to 164A.240 inclusive of the Kentucky Revised Statutes, as amended, and an Indenture of Trust, dated as of August 1, 2004, as previously supplemented, and a Second Supplemental Indenture of Trust, dated as of September 1, 2005 (collectively, the "Indenture"), each between the Corporation and Wells Fargo Bank, N.A., as trustee (the "Trustee"). The Indenture provides that the Series 2005A-\_\_ Bonds are to be issued to provide funds to the Corporation to originate and acquire Eligible Loans, to make a deposit to the Debt Service Reserve Fund created under the Indenture and to pay certain costs and other expenses of the Corporation associated with the issuance of the Series 2005A-\_\_ Bonds.

In connection with rendering the opinions, we have examined and relied upon such documents as we have deemed necessary and appropriate including but not limited to the following:

(a) the Indenture;

(b) that certain summary of anticipated cash flows to be derived by the Corporation from the Revenues, Recoveries of Principal, Financed Eligible Loans, Investment Securities and all amounts held in any Fund or Account established under the Indenture, including investments thereof (collectively, the "Assets"), attached as an exhibit to the Corporation's Officer's Certificate (the "Cash Flow Summary");

(c) the Official Statement dated August 26, 2005, used in connection with the offer and sale of the Series 2005A-\_\_ Bonds (together with all attachments, supplements and amendments thereto, the "Official Statement"); and

(d) the Series 2005A-\_\_ Bonds.

## **II. FACTUAL ASSUMPTIONS**

In rendering these opinions we have assumed: (a) the validity of signatures; (b) the accuracy of copies; (c) that the Series 2005A-\_\_ Bonds will be issued in accordance with the terms of the Indenture; (d) that the Corporation is an independent de jure municipal corporation and a political subdivision of the Commonwealth of Kentucky statutorily created and exempt from federal income taxes as an entity described in Section 115 of the Code; and (e) that there is no interest rate floor on the Series 2005A-\_\_ Bonds. We further have assumed compliance with all of the foregoing documents. These opinions are further based upon certain assumptions set forth herein, including an assumption to the effect that the Indenture will be enforced in accordance with its terms. Please note that except to the extent we deemed relevant, we have not independently verified any of the information described herein.

## **III. FACTUAL REPRESENTATIONS, STATEMENTS OR FINDINGS**

Further, in rendering the opinions expressed herein, we have relied upon the following representations, among others, made by the Corporation:

(a) that the Corporation believes that the assumptions used in the preparation of the Cash Flow Summary are reasonable and that such Cash Flow Summary is an accurate estimate of the actual performance of the Assets;

(b) that the fees and reimbursements of expenses to be charged in connection with the Assets will be reasonable, ordinary and customary fees and reimbursements of expenses;

(c) that the fees charged by Wells Fargo Bank, N.A. (the "Trustee") are reasonable, ordinary and customary;

(d) that the Corporation will acquire and own its interest in the Financed Eligible Loans as described in the Official Statement and will undertake the transactions contemplated under the Indenture for a bona-fide business purpose consistent with its statutory purpose, as principal, rather than as agent of any other person;

(e) that the Corporation will prepare its federal, state and other income tax returns, if any, in a manner consistent with a pledge or conditional assignment, rather than a sale of the Financed Eligible Loans under the Indenture and with the characterization of the Series 2005A-\_\_ Bonds as debt for federal income tax purposes;

(f) that as set forth in the Official Statement, the holders of the Series 2005A-\_\_ Bonds have agreed by purchasing the Series 2005A-\_\_ Bonds to treat the Series 2005A-\_\_ Bonds as indebtedness of the Corporation for federal income tax purposes;

(g) that the Series 2005A-\_\_ Bonds will be issued strictly in accordance with the terms of the Indenture;

(h) that the Corporation will exercise its rights under the Indenture in a manner which will maximize its economic return on the Assets while giving effect to any benefits made available to the borrowers of the student loans and its statutory purpose;

(i) that the Corporation intends to treat the Series 2005A-\_\_ Bonds as its indebtedness for financial accounting purposes;

(j) that the Corporation will initially sell, and the Broker Dealer will remarket, the Series 2005A-\_\_ Bonds at par;

(k) that the interest rates on the Series 2005A-\_\_ Bonds will be reset periodically by the Auction Agent based on orders received from the Broker Dealer in accordance with the terms of the Official Statement and the procedures set forth in Appendix H, attached to the Official Statement (the "Auction Procedures"), and variations in such interest rates can reasonably be expected to measure contemporaneous variations in the cost of newly borrowed funds at the time of such reset for the Corporation;

(l) that the Auction Procedures, which are required to be followed, are intended to achieve for the Corporation the lowest interest rates reasonably achievable for the Series 2005A-\_\_ Bonds in an auction rate mode; and

(m) that the Corporation has received a rating from Fitch of "AAA" and from S&P of "AAA" on the Series 2005A-\_\_ Bonds.

We further note that the interest rate cap on the Series 2005A-\_\_ Bonds, as described in the Official Statement, while in an auction rate mode, is fixed over the life of the Series 2005A-\_\_ Bonds.

#### **IV. LAW AND ANALYSIS**

##### **A. Pledge or Conditional Assignment of Property**

In the event a pledge or conditional assignment of property to secure a debt is treated as a pledge or conditional assignment rather than a sale for federal income tax purposes, the borrower, rather than the lender, will be treated as the owner of such property. In addition, by implication, the debt may be treated as a debt obligation of the borrower, rather than an interest in the property securing the pledge. On the other hand, if a pledge is treated as a sale for federal income tax purposes, ownership of the property will pass to the nominal lender.

The determination of ownership of property for federal income tax purposes is not dependent upon the holding of legal title. Rather, in cases not involving tax motivated transactions, a taxpayer will be treated as the owner of property for federal income tax purposes only if he possesses substantial benefits and burdens of ownership.

The analysis of the benefits and burdens of ownership must be made with regard to the facts and circumstances of each particular case. No single fact or criteria is determinative with regard to ownership.

The nature of the encumbered property dictates those factors which will be deemed most crucial in establishing its ownership for federal income tax purposes. For example, the burden of the risk of loss plays a relatively less important role in the analysis of ownership of property, such as real estate, which is anticipated to appreciate, than in the case of other property, such as speculative debt securities. Similarly, the risk of loss will bear relatively little weight in determining the ownership of obligations of the United States government or similar obligations, since the risk of default on such obligations is low.

In the Estate of Franklin v. Commissioner, 64 T.C. 752 (1975), aff'd 544 F.2d 1045 (9th Cir. 1976), the court considered the ownership of certain real property subject to nonrecourse debt. In that circumstance, the court indicated that a taxpayer would be treated as the owner of property subject to nonrecourse debt if he could demonstrate an anticipated increase in value of such property so that within a reasonable period of time equity would exist which no owner would prudently abandon. See also Packard Cleveland Motor Co. v. Commissioner, 14 BTA 118 (1928), Elmer v. Commissioner, 65 F.2d 568 (2nd Cir. 1958), Mathers v. Commissioner, 57 T.C. 666 (1972) acq. 1973-1 C.B.1 and Bolger v. Commissioner, 59 T.C. 751 (1973). Conversely, taxpayers were deemed not to be the owners of property subject to nonrecourse debt for federal income tax purposes in circumstances in which they lacked the ability to realize upon any gain or profit expected to be derived from such property. See Hilton v. Commissioner, 74 T.C. 305, aff'd 671 F.2d 316 (9th Cir. 1980), Narver v. Commissioner, 75 T.C. 53 (1980) aff'd 670 F.2d 855 (9th Cir. 1982) and Rice's Toyota World, Inc. v. Commissioner, 81 T.C. 184 (1983).

In General Counsel Memorandum 37848, the Service considered the ownership for federal income tax purposes of certain installment obligations. Therein, the Service stated as follows:

In summary, we think that a sale of installment obligations can occur without a transfer of the risk of loss because (a) the cases indicate that the issue of when a sale occurs must be answered from all of the facts and that no factor, such as the risk of loss, is to be considered conclusive; (b) there is no difference between a nonrecourse sale and a sale of installment obligations with a guaranty, provided the buyer of the installment obligations has the power of alienation and will receive the benefits of any appreciation in the value of the obligations; and (c) the cases involving a transfer of installment obligations indicate that a transfer of risk of loss is not necessary for a sale to occur.<sup>1</sup>

Therein, the Service concluded that if the taxpayer possessed the right to invest or otherwise use payments on the installment obligations and the power to sell such obligations and realize any profits caused by changes in the market interest rates, he should be treated as the owner of such obligations even without the burden of the risk of loss. See also General Counsel Memorandum 39584 and General Counsel Memorandum 34602.

In the current circumstance, we note that based on the foregoing representations and the Cash Flow Summary the Corporation expects to derive substantial positive cash flow from the Assets during the term of the Series 2005A-\_\_ Bonds. Upon the satisfaction of all of the Corporation's obligations under the Indenture, any remaining portion of the Assets will be remitted to it. Further, under certain circumstances, the Corporation may, at its option, cause the redemption or repurchase of the Series 2005A-\_\_ Bonds prior to their stated maturity date.

## **B. Debt or Equity**

The characterization of an instrument as debt or equity for federal income tax purposes is dependent upon the analysis of all the facts and circumstances in question. No single fact or criteria is determinative of this issue. Further, the Service proposed and withdrew regulations promulgated under Section 385 of the Code which would have provided guidelines concerning the characterization of instruments as debt for federal income tax purposes. Among the facts which various courts have analyzed in considering the characterization of an instrument are the following:

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<sup>1</sup> While private letter rulings, general counsel memoranda, technical advice memoranda, chief counsel advice letters and field service advice memoranda generally have no precedential value, they are indicative of the position of the Service on the subject at issue. *Hanover Bank v. Comm'r*, 369 U.S. 672, 686 (1962). Private letter rulings and technical advice memoranda issued after October 31, 1976, general counsel memoranda issued after March 12, 1981, and "notices, announcements and other administrative pronouncements published by the Service in the Internal Revenue Bulletin" are, among other sources, authority for purposes of determining whether there is substantial authority for the tax treatment of an item within the meaning of Treas. Reg. § 1.6662-4. In order for a taxpayer's position to be supported by substantial authority the "weight of the authorities supporting the treatment [must be] substantial in relation to the weight of authorities supporting contrary treatment." Treas. Reg. § 1.6662-4(d)(3)(i). The substantial authority inquiry requires an analysis of all the facts and circumstances. *Id.*

- (a) the existence of a fixed and reasonably proximate maturity date on or before which the obligation must be repaid in all events;
- (b) the existence of a fixed or determinable rate of interest, the payment of which is not dependent upon the profits of the borrower;
- (c) the existence of adequate remedies in the event of a default in the payment of principal or interest by the borrower;
- (d) the subordination of the payment of the obligation in question to the claims of other creditors;
- (e) the participation in the management or control of the business of the borrower by the lender;
- (f) the state law characterization of the instrument and its treatment by the parties;
- (g) the existence of security for the debt which is reasonably expected to provide a source of its repayment in whole or in part;
- (h) the existence of a sinking fund or other similar arrangement to assure repayment of the debt on or prior to its maturity;
- (i) the issuance of debt securities in identical or similar proportions to the issuance of equity securities, particularly when coupled with subordination of such debt to those debts of outside creditors;
- (j) the existence of guarantees or other similar arrangements provided by shareholders or other related persons;
- (k) the history of payment on the obligation and the practices of the lender in enforcing remedies on default;
- (l) the adequacy of the equity capitalization of the borrower relative to the anticipated claims and needs of the business;
- (m) the intended use by the borrower of the borrowed funds;
- (n) the existence of a bona-fide business purpose in incurring the debt; and
- (o) an analysis of whether an unrelated third party creditor would have made the advance under similar terms and conditions.

See *John Kelley Co. v. Commissioner*, 326 U.S. 521 (1946); *Fin Hay Realty Company v. United States*, 398 F. 2d, 694 (3rd Cir. 1968); *Wood Preserving Corporation v. United States*, 347 F.2d 117 (4th Cir. 1965); *H.P. Hood & Sons v. Commissioner*, 141 F.2d 467 (1st Cir. 1944); *Rowan v. United States*, 219 F.2d 51 (5th Cir. 1955); *Swoby Corporation v. Commissioner*, 9 T.C. 887 (1949); *United States v. South Georgia Railway*, 107 F.2d 3 (5th Cir. 1939); *P.M. Finance Corporation v. Commissioner*, 302 F.2d 786 (3rd Cir. 1962); *United States v. Snyder Brothers Company*, 367 F.2d 980 (5th Cir. 1966); *Milwaukee & Suburban Transport Corporation v. Commissioner*, 283 F.2d 279 (7th Cir. 1960) cert. denied 366 U.S. 965; *National Carbide Corporation v. Commissioner*, 336 U.S. 422 (1949); *Tomlinson v. 1661 Corporation*, 377 F.2d 291 (5th Cir. 1967); *Commissioner v. Meridian & Thirteenth Realty Company*, 132 F.2d 182 (7th Cir. 1942); *Estate of Ernest G. Howes*, 30 T.C. 909 (1958); *Kraft Foods Company v. Commissioner*, 232 F.2d 118 (2nd Cir. 1956); *Murphy Logging Company v. United States*, 378 F.2d 222 (9th Cir. 1967); *Piedmont Corporation v. Commissioner*, 388 F.2d 886 (4th Cir. 1968); *Gilbert v. Commissioner*, 248 F.2d 399 (2nd Cir. 1957); *Nassau Lens Corp. v. Commissioner*, 308 F.2d 39 (2nd Cir. 1962); and *C.M. Gooch Lumber Sales Company*, 49 T.C. 649 (1968).



In the current circumstance, we note that based on the foregoing representations and the terms of the Series 2005A-\_\_ Bonds as set forth in the Indenture, the Series 2005A-\_\_ Bonds have indicia of debt, including, but not limited to: (i) that the holders of the Series 2005A-\_\_ Bonds: (A) possess specific remedies in the event the Corporation defaults in payment of principal of or interest on the Series 2005A-\_\_ Bonds and (B) do not participate in the management or control of the business of the Corporation; (ii) the Series 2005A-\_\_ Bonds: (X) will be treated as debt by the parties for federal income tax purposes, (Y) have a fixed and reasonable proximate maturity date on or before which the obligation must be repaid and (Z) have a determinable rate of interest, the payment of which is not dependent upon the profits of the borrower; (iii) the security for the Series 2005A-\_\_ Bonds is reasonably expected to provide a source of repayment on the Series 2005A-\_\_ Bonds; and (iv) the Corporation has a bona-fide business purpose for issuing the Series 2005A-\_\_ Bonds.

### **C. Qualified Stated Interest and Original Issue Discount**

Regulation Section 1.1275-5 provides that “qualified stated interest” is interest that is unconditionally payable at least annually (during the entire term of the instrument) at, in addition to other qualified rates, a “qualified floating rate” or a combination of a single fixed rate and one or more qualified floating rates. A rate is a qualified floating rate if variations in the rate can reasonably be expected to measure contemporaneous variations in the cost of newly borrowed funds (for the particular issuer or issuers in general) in the currency in which the debt instrument is denominated and the rate is not subject to overall or periodic caps or floors unless those caps or floors either are fixed over the life of the instrument or are not reasonably expected as of the issue date to change significantly the yield of the debt instrument.

Regulations promulgated under Section 1273 of the Code provide that a debt instrument will be issued with original issue discount (“OID”) if the “stated redemption price at maturity” of the debt instrument (generally equal to its principal amount as of the date of issuance plus all interest other than “qualified stated interest” payable prior to or at maturity) exceeds the original issue price. If OID exists, all or a portion of the taxable income to be recognized with respect to the debt instrument will be includible in income of the holder of the instrument as OID on a constant yield to maturity basis. Any amount treated as OID would not, however, be includible again in income when the interest is actually received.

In the current circumstance we note that based on the foregoing representations and assumptions, the Series 2005A-\_\_ Bonds will be initially sold and remarked at par, the Auction Procedures are expected to produce variations in the interest rates on the Series 2005A-\_\_ Bonds that can reasonably be expected to measure contemporaneous variations in the cost of newly borrowed funds for the Corporation, the cap on the interest rate is fixed over the life of the Series 2005A-\_\_ Bonds and there is no interest rate floor with respect to the Series 2005A-\_\_ Bonds.

Although there is no precedent regarding the characterization for federal income tax purposes of instruments with the same terms as the Series 2005A-\_\_ Bonds, and therefore the result cannot be free from doubt, we are of the opinion that: (i) the Series 2005A-\_\_ Bonds will be characterized as indebtedness of the Corporation; (ii) the Series 2005A-\_\_ Bonds will not be treated as having been issued with OID; and (iii) the interest on the Series 2005A-\_\_ Bonds is not excludable from gross income under Section 103 of the Code, each for federal income tax purposes. The opinions expressed herein are based solely on the documents, representations and assumptions set forth above and subject to the limitations and qualifications described herein.

Please note that we have rendered only the foregoing opinions and have not passed upon any other federal or other income tax issue associated with the Corporation or the Series 2005A-\_\_ Bonds. Please further note that these opinions are intended for your benefit only. These opinions may not be relied upon by you for any other purpose, or by any other person for any purpose, without our prior written consent. Our engagement with respect to this matter terminates upon the date hereof, and we undertake no obligation with respect to this matter after this date and, thus, disclaim any obligation to update these opinions for events occurring or coming to our attention after the date hereof.

Very truly yours,

## AUCTION PROCEDURES FOR THE TAX-EXEMPT ARCS

The Auction Procedures for the Tax-Exempt ARCs are as set forth below. **These procedures will apply separately to an Auction of Bonds of a Series of 2005 Bonds that are ARCs.** All of the terms used in this Appendix F are defined herein or in other parts of this Official Statement. *“ARCs” means the Series 2005A-1 Bonds and Series 2005B-1 Bonds* prior to their conversion to bear interest at a Fixed Rate or a Variable Rate.

## Definitions

“AA Financial Commercial Paper Rate,” on any date of determination, shall mean (a) for Auction Periods of 35 days or less or for ARCs in a BMA Auction Mode, the interest equivalent of commercial paper having a maturity of 30 days, (b) for Auction Periods greater than 35 days and less than 75 days, the interest equivalent of commercial paper having a maturity of 60 days, (c) for Auction Periods greater than 75 days and less than 105 days, the interest equivalent of commercial paper having a maturity of 90 days; as each such rate is published on the Business Day prior to such date by the Board of Governors of the Federal Reserve System on its World Wide Web site <http://www.federalreserve.gov/releases/cp/hisrates.txt>, or any successor publication (“H.15(519)”) under the caption “AA financial.” In the event that such publication has not been published in a timely manner, the “AA” Financial Commercial Paper Rate shall be calculated by the Market Agent, and shall be the bond equivalent yield of the arithmetic mean of the offered rates as of 11:00 a.m., New York City time, on the determination date of three leading dealers of U.S. dollar commercial paper in The City of New York (which may include UBS Financial Services Inc.) selected by the Market Agent, for U.S. dollar commercial paper having a maturity of 30, 60 or 90 days, as applicable, placed for financial issuers whose bond rating is “AA” or the equivalent, from a nationally recognized securities rating agency; provided, however, that if the dealers selected as aforesaid by the Market Agent are not quoting as mentioned in this sentence (and if the Market Agent, in its discretion, determines that such quotations can not be obtained from any three leading dealers of U.S. dollar commercial paper in The City of New York) such rate shall be the same rate as in effect for the immediately preceding Interest Period.

For purposes of this definition, the “interest equivalent” of a rate stated on a discount basis (a “discount rate”) for commercial paper of a given day’s maturity shall be equal to the product of (A) 100 times (B) the discount rate times (C) the quotient (rounded upwards to the next higher one-thousandth (.001) of 1%) of (x) the applicable number of days in a year (365 or 366) divided by (y) the difference between (1) 360 and (2) the product of the discount rate (expressed in decimals) times the applicable number of days in which such commercial paper matures.

“*After Tax Equivalent Rate*,” on any date of determination, means the interest rate per annum equal to the product of:

- (a) The “AA” Financial Commercial Paper Rate on such date; and
- (b) 1.00 minus the Statutory Corporate Tax Rate on such date.

“*All-Hold Rate*” on any date of determination, means the interest rate per annum equal to 90% (as such percentage may be adjusted as described under the caption “TAX-EXEMPT AUCTION RATE CERTIFICATES – Adjustment in Percentages Pertaining to Tax-Exempt ARCs” in the body of this Official Statement) of the lesser on such date of:

- (a) the After Tax Equivalent Rate on such date; and
- (b) the S&P Weekly High Grade Index on such date;

rounded to the nearest one-thousandth (.001) of 1%; provided that in no event shall the All-Hold Rate be more than the Maximum Rate or less than zero.

*“Applicable Number of Business Days”* means the greater of two Business Days or one Business Day plus the number of Business Days by which the Auction Date precedes the first day of the next succeeding Interest Period.

*“Applicable Percentage,”* on any date of determination, means the percentage determined (as such percentage may be adjusted as described under the caption “TAX-EXEMPT AUCTION RATE CERTIFICATES – Adjustment in Percentages Pertaining to Tax-Exempt ARCs” in the body of this Official Statement) based on the lower of the prevailing credit ratings on the ARCs in effect at the close of business on the Business Day immediately preceding such date, as set forth below:

Credit Ratings		Applicable Percentage
Moody’s	Fitch, Inc. and S&P	
“Aaa”	“AAA”	175%
“Aa3” to “Aa1”	“AA-” to “AA+”	175%
“A3” to “A1”	“A-” to “A+”	175%
“Baa3” to “Baa1”	“BBB-” to “BBB+”	200%
Below “Baa3”	Below “BBB-”	265%

provided, that, in the event that the ARCs are not rated by any Rating Agency, the Applicable Percentage shall be 265%; and provided further, that if a Payment Default shall have occurred and be continuing, the Applicable Percentage shall be 265%. For purposes of this definition, the rating categories listed above refer to and include the respective rating categories correlative thereto if any or all of such Rating Agencies have changed or modified their generic rating categories or if they no longer rate the ARCs and have been replaced.

*“Auction Agency Agreement”* means the Auction Agency Agreement dated as of September 1, 2005, between the Trustee and the Auction Agent, relating to the ARCs, and any similar agreement with a successor Auction Agent, in each case as from time to time amended or supplemented.

*“Auction Agent”* means any person appointed as such pursuant to the Indenture.

*“Auction Date”* means, for the Series 2005A-1 Bonds and the Series 2005B-1 Bonds outstanding as ARCs, October 11, 2005, and thereafter, in each instance the Business Day immediately preceding the first day of each Interest Period other than;

- (a) each Interest Period commencing after the ownership of the ARCs is no longer maintained in book-entry form by the Depository;
- (b) each Interest Period commencing after the occurrence and during the continuance of a Payment Default; or
- (c) any Interest Period commencing less than the Applicable Number of Business Days after the cure or waiver of a Payment Default.

Notwithstanding the foregoing, the Auction Date for one or more Auction Periods may be changed as described under the caption “TAX-EXEMPT AUCTION RATE CERTIFICATES – Changes in Tax-Exempt ARC Auction Periods or Tax-Exempt ARC Auction Date and Changes to and from BMA Auction Mode” in the body of this Official Statement.

*“Auction Period”* means, with respect to any ARCs, the Interest Period applicable thereto as the same may be changed as described under the caption “TAX-EXEMPT AUCTION RATE CERTIFICATES – Changes in Tax-Exempt ARC Auction Periods or Tax-Exempt ARC Auction Date and Changes to and from BMA Auction Mode” in the body of this Official Statement.

*“Auction Procedures”* means the procedures set forth under “Auction Procedures Other than BMA Auction Mode” below or, in the case of ARCs in the BMA Auction Mode, “BMA Auction Procedures” below.

*“Auction Rate”* means the rate of interest per annum on any Auction Date that results from the implementation of the Auction Procedures as determined and described under “Auction Procedures Other than BMA Auction Mode” below, or in the case of ARCs in the BMA Auction Mode, the rate of interest per annum equal to the BMA Index Rate plus the BMA Auction Spread Rate that results in the implementation of the Auction Procedures, and determined as provided under “BMA Auction Procedures” below. From the date of issuance of the ARCs, the Auction Rate for the ARCs shall be determined as described under “Auction Procedures Other than BMA Auction Mode” below, unless and until converted to a BMA Auction Mode or until a Variable Rate Conversion Date or Fixed Rate Conversion Date.

*“Authorized Denominations”* means, with respect to the ARCs, \$50,000 and any multiple thereof; and otherwise as provided in the Indenture.

*“BMA Auction Mode”* means any Interest Period during which ARCs bear interest based upon the BMA Index Rate and the BMA Auction Rate Spread.

*“BMA Auction Spread Rate”* means a per annum rate in excess of the BMA Index Rate to be added thereto in determining the Auction Rate during the BMA Auction Mode.

*“BMA Index Rate”* means the rate for a BMA Weekly Reset Date determined on the basis of an index which is issued weekly and which is compiled from the weekly interest rate resets of tax exempt variable rate issues included in a data base maintained by Municipal Market Data which meet specific criteria established by The Bond Market Association and issued on Wednesday of each week, or if any Wednesday is not a U.S. Government Securities Business Day, the next succeeding U.S. Government Securities Business Day; provided that in the event Municipal Market Data no longer publishes such an index, the BMA Index Rate shall be the S&P Weekly High Grade Index. If, on any date, the Trustee is unable to obtain the BMA Index Rate because it has not yet been made publicly available, the Trustee may request such information from the Broker-Dealer and the Broker-Dealer shall promptly provide such information to the Trustee, to the extent it has knowledge thereof.

*“BMA Weekly Period”* means, during the BMA Auction Mode, each period beginning on a BMA Weekly Reset Date and continuing to but not including the immediately succeeding BMA Weekly Reset Date; provided, however, that if the first day of an Interest Period for which the BMA Auction Mode is to be in effect or continued for a new Interest Period is other than a BMA Auction Reset Date, then the first BMA Weekly Period during such Interest Period shall commence on such first day of such Interest Period and shall continue to (but not including) the immediately succeeding BMA Weekly Reset Date.

*“BMA Weekly Reset Date”* means each Thursday (or any other day specified by The Bond Market Association as a reset date), or if any Thursday is not a U.S. Government Securities Business Day, the next succeeding U.S. Government Securities Business Day.

*“Broker-Dealer”* means UBS Financial Services Inc. or any other broker or dealer (each as defined in the Securities Exchange Act), commercial bank or other entity permitted by law to perform the functions required of a Broker-Dealer set forth in the Auction Procedures that (a) is a Participant (or an affiliate of a Participant), (b) has been selected by the Corporation with the approval of the Market Agent, and (c) has entered into a Broker-Dealer Agreement that remains effective.

*“Broker-Dealer Agreement”* means the Broker-Dealer Agreement dated as of September 1, 2005 between the Auction Agent and UBS Financial Services Inc., relating to the ARCs and each other agreement between the Auction Agent and a Broker-Dealer pursuant to which the Broker-Dealer agrees to participate in Auctions as set forth in the Auction Procedures, as from time to time amended or supplemented.

*“Business Day”* means any day other than a Saturday, Sunday, holiday or day on which banks located in the City of New York, New York, or the New York Stock Exchange, the Trustee or the Auction Agent, are

authorized or permitted by law or executive order to close or such other date as may be agreed to in writing by the Market Agent, the Auction Agent, the Broker-Dealer and the Corporation.

*“Change of Preference Law”* means, with respect to any Owner of ARCs, any amendment to the Code or other statute enacted by the Congress of the United States or any temporary, proposed or final regulations promulgated by the United States Treasury after the date hereof which (i) changes or would change any deduction, credit or other allowance allowable in computing liability for any federal tax with respect to, or (ii) imposes or would impose or reduces or would reduce or increases or would increase any federal tax (including, but not limited to, preference or excise taxes) upon, any interest earned by any holder of bonds the interest on which is excluded from federal gross income under Section 103 of the Code.

*“Default Rate”* on any date of determination, means the interest rate per annum equal to the lesser of (i) the Applicable Percentage of the S&P Weekly High Grade Index and (2) the Maximum Interest Rate.

*“Existing Owner”* means (i) with respect to and for the purpose of dealing with the Auction Agent in connection with an Auction, a Person who is a Broker-Dealer listed in the existing owner registry at the close of business on the Business Day immediately preceding the Auction Date for such Auction and (ii) with respect to and for the purpose of dealing with the Broker-Dealer in connection with an Auction, a Person who is a beneficial owner of ARCs.

*“Fitch”* means Fitch, Inc., New York, New York, and its successors and assigns.

*“Fixed Rate”* means the fixed rate or rates of interest on a series of Series 2005 Tax-Exempt Bonds determined pursuant to the Indenture.

*“Fixed Rate Conversion Date”* means a date on which a series of Series 2005 Tax-Exempt Bonds begin to bear interest at a Fixed Rate.

*“Initial Interest Period”* means, with respect to the Series 2005A-1 Bonds and the Series 2005B-1 Bonds, the period from the date of delivery of the Series 2005A-1 Bonds and the Series 2005B-1 Bonds and ending on and including October 11, 2005.

*“Interest Payment Date”* means, with respect to the Series 2005 Tax-Exempt Bonds, (a) while outstanding as ARCs, (i) each June 1 and December 1, commencing December 1, 2005, except as changed as described under the caption “TAX-EXEMPT AUCTION RATE CERTIFICATES – Changes in Tax-Exempt ARC Auction Periods or Tax Exempt ARC Auction Date” in the body of this Official Statement (or, if any such date is not a Business Day, the next succeeding Business Day (but only for interest accrued through the preceding May 31 or November 30, as applicable)), (ii) any day on which the Series 2005 Tax-Exempt Bonds are subject to mandatory tender for purchase or conversion to or from a BMA Auction Mode pursuant to the Indenture or redemption pursuant to the Indenture, and (iii) on the maturity date thereof, or if such date is not a Business Date, the next succeeding Business Day (but only for interest accrued through the day preceding the maturity date), (b) after the Variable Rate Conversion Date each June 1 and December 1 next following the Variable Rate Conversion Date and on any day on which Series 2005 Tax-Exempt Bonds are subject to mandatory tender for purchase pursuant to the Indenture, or redemption pursuant to the Indenture and (c) after the Fixed Rate Conversion Date, each June 1 and December 1 commencing with the June 1 and December 1 that occurs no sooner than three months after the Fixed Rate Conversion Date.

*“Interest Period”* means, (a) with respect to each series of Series 2005 Tax-Exempt Bonds, so long as interest is payable on June 1 and December 1 with respect thereto and unless otherwise changed as described under the caption “TAX-EXEMPT AUCTION RATE CERTIFICATES – Changes in Tax-Exempt ARC Auction Periods or Tax-Exempt ARC Auction Date and Changes to and from BMA Auction Mode” in the body of this Official Statement, the Initial Interest Period and each successive period of generally 35 days thereafter, respectively, commencing on a Wednesday (or the Business Day following the last day of the prior Interest Period, if the prior Interest Period does not end on a Tuesday) and ending on (and including) a Tuesday (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day that is followed by a Business Day), and (b) with respect to the Series 2005 Tax-Exempt Bonds outstanding as ARCs, if, and for so long as, Interest Payment

Dates are specified to occur at the end of each Auction Period as described in the Indenture, each period commencing on an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date.

*"Market Agent Agreement"* means the Market Agent Agreement dated as of September 1, 2005, between the Trustee and the Market Agent, relating to the ARCs, and any similar agreement with a successor Market Agent, in each case as from time to time amended or supplemented.

*"Maximum Interest Rate"* means with respect to ARCs the lesser of (a) 12% per annum (or such higher rate, not in excess of 18%, as may be permitted by a Rating Confirmation and a Favorable Opinion) or (b) the maximum rate of interest permitted under the laws of the Commonwealth of Kentucky.

*"Maximum Rate,"* on any date of determination, means the interest rate per annum equal to the lesser of:

(a) the Applicable Percentage of the higher of (i) the After-Tax Equivalent Rate on such date and (ii) the S&P Weekly High Grade Index on such date; and

(b) the Maximum Interest Rate;

rounded to the nearest thousandth (.001) of 1%.

*"Owner"* means the beneficial owner of any Series 2005 Tax-Exempt Bond.

*"Participant"* means a member of or participant in DTC.

*"Payment Default"* means failure to make payment of interest on, premium, if any, and principal of the ARCs when due, by the Corporation.

*"Person"* means and includes, unless otherwise specified, an individual, corporation, company, trust, estate, partnership or association.

*"Potential Owner"* means any Person (including any Existing Owner that is (a) a Broker-Dealer when dealing with an Auction Agent, and (b) a potential beneficial owner when dealing with a Broker-Dealer) who may be interested in acquiring ARCs (or, in the case of an Existing Owner thereof, an additional principal amount of ARCs).

*"Record Date"* means, with respect to the ARCs, one Business Day prior to each Interest Payment Date.

*"Redemption Date"*, when used with respect to any ARCs to be redeemed, means the date fixed for such redemption.

*"Remarketing Agent"* means UBS Financial Services Inc. or such other remarketing agent appointed by the Corporation pursuant to the Indenture.

*"S&P Weekly High Grade Index"* means the S&P Weekly High Grade Index (formerly the J.J. Kenny Index) maintained by Standard & Poor's Securities Evaluations Inc. as published on the day which is one U.S. Government Securities Business Day immediately preceding the Auction Date or BMA Weekly Reset Date, as applicable. If the S&P Weekly High Grade Index is no longer available, then the Market Agent shall announce a rate based upon the same criteria used by Standard & Poor's Securities Evaluations Inc. to determine the S&P Weekly High Grade Index and the rate announced by the Market Agent for each Auction Date or BMA Weekly Reset Date, as the case may be, shall be used in lieu of the S&P Weekly High Grade Index for each Auction Date or BMA Weekly Reset Date, as the case may be.

*"Statutory Corporate Tax Rate"* means, as of any date of determination, the highest tax rate bracket (expressed in decimals) now or hereafter applicable in each taxable year on the taxable income of every corporation

as set forth in Section 11 of the Code or any successor section without regard to any minimum additional tax provision or provisions regarding changes in rates during a taxable year, which on the date hereof is 35%.

*“Submission Deadline”* means 1:00 p.m. (New York City time), on any Auction Date or such other time on any Auction Date by which Broker-Dealers are required to submit Orders to the Auction Agent, as specified by the Auction Agent from time to time.

*“Submission Processing Deadline”* means the earlier of (a) 40 minutes after the Submission Deadline, and (b) the time when the Auction Agent begins to disseminate the results of the Auction to the Broker-Dealers.

*“Submission Processing Representation”* has the meaning specified below under Section (b)(xi) of “Auction Procedures Other than BMA Auction Mode” and Section (b)(xi) of “BMA Auction Procedures.”

*“U.S. Government Securities Business Day”* means any day except for a Saturday, Sunday or a day on which The Bond Market Association recommends that the fixed income departments of its members be closed for the entire day for purposes of trading in U.S. government securities.

*“Variable Rate”* means the variable rate or rates of interest, or manner of determining the same, on any series of Series 2005 Tax-Exempt Bonds determined pursuant to the provisions of the Indenture.

*“Variable Rate Conversion Date”* means a date on which any series of Series 2005 Tax-Exempt Bonds begin to bear interest at a Variable Rate as provided in the Indenture.

*“Winning Bid Rate”* is used as defined below under paragraph (c)(i)(C) of “Auction Procedures Other than BMA Auction Mode” and paragraph (c)(i)(B) of “BMA Auction Procedures.”

#### **Auction Procedures Other than BMA Auction Mode**

Prior to a Fixed Rate Conversion Date or a Variable Rate Conversion Date, Auctions (other than Auctions which are held immediately prior to conversion to a BMA Auction Mode or during a BMA Auction Mode if the BMA Auction Mode is to be continued as provided in “BMA Auction Procedures” below) shall be conducted on each Auction Date (other than the Auction Date immediately preceding (i) each Interest Period commencing after the ownership of the ARCs is no longer maintained in book-entry form by DTC; (ii) each Interest Period commencing after the occurrence and during the continuance of a Payment Default; or (iii) any Interest Period commencing less than two Business Days after the cure of a Payment Default). If there is an Auction Agent on such Auction Date, auctions shall be conducted in the following manner (such procedures to apply separately to each series of ARCs):

(a) *Submission By Existing Owners and Potential Owners.*

(i) Prior to the Submission Deadline on each Auction Date:

(A) each Existing Owner of ARCs may submit to a Broker-Dealer information as to: (1) the principal amount of Outstanding ARCs, if any, held by such Existing Owner which such Existing Owner desires to continue to hold without regard to the Auction Rate for the next succeeding Interest Period; (2) the principal amount of Outstanding ARCs, if any, which such Existing Owner offers to sell if the Auction Rate for the next succeeding Interest Period shall be less than the rate per annum specified by such Existing Owner; and/or (3) the principal amount of Outstanding ARCs, if any, held by such Existing Owner which such Existing Owner offers to sell without regard to the Auction Rate for the next succeeding Interest Period; and

(B) one or more Broker-Dealers may contact Potential Owners to determine the principal amount of ARCs which each such Potential Owner offers to purchase if the Auction Rate for the next succeeding Interest Period shall not be less than the rate per annum specified by such Potential Owner.

The communication to a Broker-Dealer of information referred to in clause (A)(1), (A)(2), (A)(3) or (B) of this subsection (a)(i) is hereinafter referred to as an "Order" and collectively as "Orders." Each Existing Owner and each Potential Owner placing an Order is hereinafter referred to as a "Bidder" and collectively as "Bidders." An Order containing the information referred to in clause (A)(1) of this subsection (a)(i) is hereinafter referred to as a "Hold Order" and collectively as "Hold Orders." An Order containing the information referred to in clause (A)(2) or (B) of this subsection (a)(i) is hereinafter referred to as a "Bid" and collectively as "Bids." An order containing the information referred to in clause (A)(3) of this subsection (a)(i) is hereinafter referred to as a "Sell Order" and collectively as "Sell Orders."

(ii) (A) Subject to the provisions of subsection (b) below, a Bid by an Existing Owner shall constitute an irrevocable offer to sell: (1) the principal amount of Outstanding ARCs specified in such Bid if the Auction Rate determined shall be less than the rate specified in such Bid; or (2) such principal amount or a lesser principal amount of Outstanding ARCs to be determined as set forth in clause (D) of paragraph (i) of subsection (d) below, if the Auction Rate determined shall be equal to the rate specified in such Bid; or (3) such principal amount or a lesser principal amount of Outstanding ARCs to be determined as set forth in clause (C) of paragraph (ii) of subsection (d) below if the rate specified shall be higher than the Maximum Rate and Sufficient Clearing Bids have not been made.

(B) Subject to the provisions of subsection (b) below, a Sell Order by an Existing Owner shall constitute an irrevocable offer to sell: (i) the principal amount of Outstanding ARCs specified in such Sell Order; or (2) such principal amount or a lesser principal amount of Outstanding ARCs as set forth in clause (C) of paragraph (ii) of subsection (d) below if Sufficient Clearing Bids have not been made.

(C) Subject to the provisions of subsection (b) below, a Bid by a Potential Owner shall constitute an irrevocable offer to purchase: (1) the principal amount of Outstanding ARCs specified in such Bid if the Auction Rate determined shall be higher than the rate specified in such Bid; or (2) such principal amount or a lesser principal amount of Outstanding ARCs as set forth in clause (E) of paragraph (i) of subsection (d) below if the Auction Rate determined shall be equal to the rate specified in such Bid.

(b) *Submission by Broker-Dealers to the Auction Agent.*

(i) Each Broker-Dealer shall submit in writing to the Auction Agent prior to the Submission Deadline (subject to clause (xi) below) on each Auction Date all Orders obtained by such Broker-Dealer and shall specify with respect to each such Order:

(A) the name of the Bidder placing such Order,

(B) the aggregate principal amount of ARCs that are the subject of such Order,

(C) to the extent that such Bidder is an Existing Owner: (1) the principal amount of ARCs, if any, subject to any Hold Order placed by such Existing Owner; (2) the principal amount of ARCs, if any, subject to any Bid placed by such Existing Owner and the rate specified in such Bid; and (3) the principal amount of ARCs, if any, subject to any Sell Order placed by such Existing Owner; and

(D) to the extent such Bidder is a Potential Owner, the rate and amount specified in such Potential Owner's Bid.

(ii) If any rate specified in any Bid contains more than three figures to the right of the decimal point, the Auction Agent shall round such rate up to the next highest one-thousandth (.001) of 1%.



(iii) If an Order or Orders covering all Outstanding ARCs held by any Existing Owner is not submitted to the Auction Agent prior to the Submission Processing Deadline, the Auction Agent shall deem a Hold Order to have been submitted on behalf of such Existing Owner covering the principal amount of Outstanding ARCs held by such Existing Owner and not subject to an Order submitted to the Auction Agent.

(iv) None of the Corporation, the Trustee nor the Auction Agent shall be responsible for any failure of a Broker-Dealer to submit an Order to the Auction Agent on behalf of any Existing Owner or Potential Owner.

(v) If any Existing Owner submits through a Broker-Dealer to the Auction Agent one or more Orders covering in the aggregate more than the principal amount of Outstanding ARCs held by such Existing Owner, such Orders shall be considered valid as follows and in the following order of priority:

(A) all Hold Orders shall be considered valid, but only up to and including in the aggregate the principal amount of ARCs held by such Existing Owner, and if the aggregate principal amount of ARCs subject to such Hold Orders exceeds the aggregate principal amount of ARCs held by such Existing Owner, the aggregate principal amount of ARCs subject to each such Hold Order shall be reduced pro rata to cover the aggregate principal amount of Outstanding ARCs held by such Existing Owner.

(B) (1) any Bid shall be considered valid up to and including the excess of the principal amount of Outstanding ARCs held by such Existing Owner over the aggregate principal amount of ARCs subject to any Hold Orders referred to in clause (A) of this paragraph (v); (2) subject to subclause (1) of this clause (B), if more than one Bid with the same rate is submitted on behalf of such Existing Owner and the aggregate principal amount of Outstanding ARCs subject to such Bids is greater than such excess, such Bids shall be considered valid up to and including the amount of such excess and the stated amount of ARCs subject to each Bid with the same rate shall be reduced pro rata to cover the stated amount of ARCs equal to such excess; (3) subject to subclauses (1) and (2) of this clause (B), if more than one Bid with different rates is submitted on behalf of such Existing Owner, such Bids shall be considered valid first in the ascending order of their respective rates until the highest rate is reached at which such excess exists and then at such rate up to and including the amount of such excess; and (4) in any such event, the aggregate principal amount of Outstanding ARCs, if any, subject to Bids not valid under this clause (B) shall be treated as the subject of a Bid by a Potential Owner at the rate therein specified; and

(C) all Sell Orders shall be considered valid up to and including the excess of the principal amount of Outstanding ARCs held by such Existing Owner over the aggregate principal amount of ARCs subject to valid Hold Orders referred to in clause (A) of this paragraph (v) and valid Bids referred to in clause (B) of this paragraph (v).

(vi) If more than one Bid for ARCs is submitted on behalf of any Potential Owner, each Bid submitted shall be a separate Bid with the rate and principal amount therein specified.

(vii) Any Bid or Sell Order submitted by an Existing Owner covering an aggregate principal amount of ARCs not equal to an Authorized Denomination therefor shall be rejected and shall be deemed a Hold Order. Any Bid submitted by a Potential Owner covering an aggregate principal amount of ARCs not equal to \$50,000 or any multiple thereof shall be rejected.

(viii) Any Bid submitted by an Existing Owner or a Potential Owner specifying a rate lower than the All-Hold Rate shall be treated as a Bid specifying the All-Hold Rate and each such Bid shall be considered as valid and shall be selected in the ascending order of their respective rates in the Submitted Bids.

(ix) An Existing Owner that offers to purchase additional ARCs is, for purposes of such offer, treated as a Potential Owner.

(x) Any bid specifying a rate higher than the Maximum Interest Rate will (A) be treated as a Sell Order if submitted by an Existing Owner; and (B) not be accepted if submitted by a Potential Owner.

(xi) Notwithstanding the above provisions, a Broker-Dealer may submit an Order after the Submission Deadline and prior to the Submission Processing Deadline if the Order was (A) received by the Broker-Dealer from Existing Owners or Potential Owners prior to the Submission Deadline or (B) initiated internally by the Broker-Dealer for its own account prior to the Submission Deadline. Each Order submitted to the Auction Agent after the Submission Deadline and prior to the Submission Processing Deadline shall constitute a representation by the Broker-Dealer that such Order was (1) received from an Existing Owner or Potential Owner prior to the Submission Deadline or (2) initiated internally by the Broker-Dealer for its own account prior to the Submission Deadline (the "Submission Processing Representation").

(c) *Determination of Sufficient Clearing Bids, Auction Rate and Winning Bid Rate.*

(i) Not earlier than the Submission Processing Deadline on each Auction Date, the Auction Agent shall assemble all valid Orders submitted or deemed submitted to it by the Broker-Dealers (each such Order as submitted or deemed submitted by a Broker-Dealer being hereinafter referred to individually as a "Submitted Hold Order," a "Submitted Bid" or a "Submitted Sell Order," as the case may be, or as a "Submitted Order" and collectively as "Submitted Hold Orders," "Submitted Bids" or "Submitted Sell Orders," as the case may be, or as "Submitted Orders") and shall determine:

(A) the excess of the total principal amount of Outstanding ARCs over the sum of the aggregate principal amount of Outstanding ARCs subject to Submitted Hold Orders (such excess being hereinafter referred to as the "Available ARCs"); and

(B) from such Submitted Orders whether (1) the aggregate principal amount of Outstanding ARCs subject to Submitted Bids by Potential Owners specifying one or more rates equal to or lower than the Maximum Rate; exceeds or is equal to the sum of : (2) the aggregate principal amount of Outstanding ARCs subject to Submitted Bids by Existing Owners specifying one or more rates higher than the Maximum Rate; and (3) the aggregate principal amount of Outstanding ARCs subject to Submitted Sell Orders; (in the event such excess or such equality exists, other than because the sum of the principal amounts of ARCs in subclauses (2) and (3) above is zero because all of the Outstanding ARCs are subject to Submitted Hold Orders, such Submitted Bids in subclause (1) above being hereinafter referred to collectively as "Sufficient Clearing Bids"); and

(C) if Sufficient Clearing Bids exist, the lowest rate specified in such Submitted Bids (which shall be the "Winning Bid Rate") such that if: (1)(aa) each such Submitted Bid from Existing Owners specifying such lowest rate and (bb) all other Submitted Bids from Existing Owners specifying lower rates were rejected, thus entitling such Existing Owners to continue to hold the principal amount of ARCs subject to such Submitted Bids; and (2)(aa) each such Submitted Bid from Potential Owners specifying such lowest rate and (bb) all other Submitted Bids from Potential Owners specifying lower rates were accepted; the result would be that such Existing Owners described in subclause (1) above would continue to hold an aggregate principal amount of Outstanding ARCs which, when added to the aggregate principal amount of Outstanding ARCs to be purchased by such Potential Owners described in subclause (2) above, would equal not less than the Available ARCs.

(ii) Promptly after the Auction Agent has made the determinations pursuant to paragraph (i) of this subsection (c), the Auction Agent shall advise the Trustee of the Maximum Rate and the All-Hold Rate and the components thereof on the Auction Date and, based on such determinations, the Auction Rate for the next succeeding Interest Period (the "Auction Rate") as follows:

(A) if Sufficient Clearing Bids have been made, that the Auction Rate for the next succeeding Interest Period shall be equal to the Winning Bid Rate so determined;

(B) if Sufficient Clearing Bids have not been made (other than because all of the Outstanding ARCs are subject to Submitted Hold Orders), that the Auction Rate for the next succeeding Interest Period shall be equal to the Maximum Rate; or

(C) if all Outstanding ARCs are subject to Submitted Hold Orders, that the Auction Rate for the next succeeding Interest Period shall be equal to the All-Hold Rate.

(d) *Acceptance and Rejection of Submitted Bids and Submitted Sell Orders and Allocation of ARCs.*

Existing Owners shall continue to hold the principal amount of ARCs that are subject to Submitted Hold Orders, and, based on the determinations made pursuant to paragraph (i) of subsection (c), Submitted Bids and Submitted Sell Orders shall be accepted or rejected and the Auction Agent shall take such other action as set forth below:

(i) If Sufficient Clearing Bids have been made, all Submitted Sell Orders shall be accepted and, subject to the provisions of paragraph (iv) of this subsection (d), Submitted Bids shall be accepted or rejected as follows in the following order of priority and all other Submitted Bids shall be rejected:

(A) Existing Owners' Submitted Bids specifying any rate that is higher than the Winning Bid Rate shall be accepted, thus requiring each such Existing Owner to sell the aggregate principal amount of ARCs subject to such Submitted Bids;

(B) Existing Owners' Submitted Bids specifying any rate that is lower than the Winning Bid Rate shall be rejected, thus entitling each such Existing Owner to continue to hold the aggregate principal amount of ARCs subject to such Submitted Bids;

(C) Potential Owners' Submitted Bids specifying any rate that is lower than the Winning Bid Rate shall be accepted, thus requiring such Potential Owner to purchase the aggregate principal amount of ARCs subject to such Submitted Bids;

(D) each Existing Owners' Submitted Bid specifying a rate that is equal to the Winning Bid Rate shall be rejected, thus entitling such Existing Owner to continue to hold the aggregate principal amount of ARCs subject to such Submitted Bid, unless the aggregate principal amount of Outstanding ARCs subject to all such Submitted Bids shall be greater than the principal amount of ARCs (the "remaining principal amount") equal to the excess of the Available ARCs over the aggregate principal amount of ARCs subject to Submitted Bids described in clauses (B) and (C) of this paragraph (i), in which event such Submitted Bid of such Existing Owner shall be rejected in part, and such Existing Owner shall be entitled to continue to hold the principal amount of ARCs subject to such Submitted Bid, but only in an amount equal to the aggregate principal amount of ARCs obtained by multiplying the remaining principal amount by a fraction the numerator of which shall be the principal amount of Outstanding ARCs held by such Existing Owner subject to such Submitted Bid and the denominator of which shall be the sum of the principal amount of Outstanding ARCs subject to such Submitted Bids made by all such Existing Owners that specified a rate equal to the Winning Bid Rate; and

(E) each Potential Owner's Submitted Bid specifying a rate that is equal to the Winning Bid Rate shall be accepted but only in an amount equal to the principal amount of ARCs obtained by multiplying the excess of the aggregate principal amount of Available ARCs over the aggregate principal amount of ARCs subject to Submitted Bids described in clauses (B), (C) and (D) of this paragraph (i) by a fraction the numerator of which shall be the aggregate principal amount of Outstanding ARCs subject to such Submitted Bid and the denominator of which shall be the sum of the principal amounts of Outstanding ARCs subject to Submitted Bids made by all such Potential Owners that specified a rate equal to the Winning Bid Rate.

(ii) If Sufficient Clearing Bids have not been made (other than because all of the Outstanding ARCs are subject to Submitted Hold Orders), subject to the provisions of paragraph (iv) of this subsection (d), Submitted Orders shall be accepted or rejected as follows in the following order of priority and all other Submitted Bids shall be rejected:

(A) Existing Owners' Submitted Bids specifying any rate that is equal to or lower than the Maximum Rate shall be rejected, thus entitling such Existing Owners to continue to hold the aggregate principal amount of ARCs subject to such Submitted Bids;

(B) Potential Owners' Submitted Bids specifying any rate that is equal to or lower than the Maximum Rate shall be accepted, thus requiring each Potential Owner to purchase the aggregate principal amount of ARCs subject to such Submitted Bids; and

(C) each Existing Owner's Submitted Bid specifying any rate that is higher than the Maximum Rate and the Submitted Sell Order of each Existing Owner shall be accepted, thus entitling each Existing Owner that submitted any such Submitted Bid or Submitted Sell Order to sell the ARCs subject to such Submitted Bid or Submitted Sell Order, but in both cases only in an amount equal to the aggregate principal amount of ARCs obtained by multiplying the aggregate principal amount of ARCs subject to Submitted Bids described in clause (B) of this paragraph (ii) by a fraction the numerator of which shall be the aggregate principal amount of Outstanding ARCs held by such Existing Owner subject to such Submitted Bid or Submitted Sell Order and the denominator of which shall be the aggregate principal amount of Outstanding ARCs subject to all such Submitted Bids and Submitted Sell Orders.

(iii) If all Outstanding ARCs are subject to Submitted Hold Orders, all Submitted Bids shall be rejected.

If, as a result of the procedures described in paragraph (i) or (ii) above, any Existing Owner would be entitled or required to sell, or any Potential Owner would be entitled or required to purchase, a principal amount of ARCs that is not equal to an Authorized Denomination therefor, the Auction Agent shall, in such manner as, in its sole discretion, it shall determine, round up or down the principal amount of ARCs to be purchased or sold by any Existing Owner or Potential Owner so that the principal amount of ARCs purchased or sold by each Existing Owner or Potential Owner shall be equal to an Authorized Denomination, even if such allocation results in one or more of such Potential Owners not purchasing any ARCs.

(e) Based on the results of each Auction, the Auction Agent shall determine the aggregate principal amount of ARCs to be purchased and the aggregate principal amount of ARCs to be sold by Potential Owners and Existing Owners on whose behalf each Broker-Dealer Submitted Bids or Sell Orders and, with respect to each Broker-Dealer, to the extent that such aggregate principal amount of ARCs to be sold differs from such aggregate principal amount of ARCs to be purchased, determine to which other Broker-Dealer or Broker-Dealers acting for one or more purchasers such Broker-Dealer shall deliver, or from which other Broker-Dealers acting for one or more Sellers such Broker-Dealer shall receive, as the case may be, ARCs.

The Broker-Dealer Agreement will provide that a Broker-Dealer may submit an order in Auctions for its own account. A Broker-Dealer may also bid in an Auction in order to prevent what would otherwise be (a) a failed Auction, (b) an "all-hold" Auction, or (c) the implementation of an Auction Rate that the Broker-Dealer believes, in its sole judgment, does not reflect the market for such securities at the time of the Auction. Broker-Dealers may, but are not obligated to, advise holders of ARCs that the Auction Rate that will apply in an "all-hold" Auction is often a lower rate than would apply if holders submit Bids, and such advice, if given, may facilitate the submission of Bids by existing holders that would avoid the occurrence of an "all-hold" Auction. A Broker-Dealer may encourage bidding by others to prevent a failed Auction or an Auction Rate it believes is not a market rate (although it should encourage bidding at a rate to prevent an All Hold Rate). In the Broker-Dealer Agreement, the Broker-Dealer shall agree to handle customer orders in accordance with its duties under applicable securities laws and rules.

## BMA Auction Procedures

Prior to a Variable Rate Conversion Date or a Fixed Rate Conversion Date, and while ARCs bear interest in a BMA Auction Mode and on the Auction Date immediately preceding the effective date of a BMA Auction Mode (but not the Auction Date immediately preceding a change out of a BMA Auction Mode as provided under the Indenture) Auctions shall be conducted on each Auction Date (other than the Auction Date immediately preceding (a) each Interest Period commencing after the ownership of the ARCs is no longer maintained in book-entry form by the Depository; (b) each Interest Period commencing after the occurrence and during the continuance of a Payment Default; or (c) any Interest Period commencing less than two Business Days after the cure of a Payment Default). If there is an Auction Agent on such Auction Date, Auctions shall be conducted in the following manner (such procedures to apply separately to the ARCs of each series of the Series 2005 Tax-Exempt Bonds).

(a) *Submission by Existing Owners to Broker-Dealer.*

(i) Prior to the Submission Deadline on each Auction Date:

(A) each Existing Owner of ARCs may submit to a Broker-Dealer information as to:

(1) the principal amount of Outstanding ARCs, if any, which such Existing Owner offers to sell if the BMA Auction Spread Rate for the next succeeding Interest Period shall be less than the BMA Auction Spread Rate specified by such Existing Owner; and/or

(2) the principal amount of Outstanding ARCs, if any, held by such Existing Owner which such Existing Owner offers to sell without regard to the BMA Auction Spread Rate for the next succeeding Interest Period; and

(B) one or more Broker-Dealers may contact Potential Owners to determine the principal amount of ARCs which each such Potential Owner offers to purchase if the BMA Auction Spread Rate for the next succeeding Interest Period shall not be less than the BMA Auction Spread Rate specified by such Potential Owner.

For the purposes hereof, the communication to a Broker-Dealer of information referred to in clause (A)(1), (A)(2) or (B) of this paragraph (i) is hereinafter referred to as an "Order" and collectively as "Orders" and each Existing Owner and each Potential Owner placing an Order is hereinafter referred to as a "Bidder" and collectively as "Bidders;" an Order containing the information referred to in (y) clause (A)(1) or (B) of this paragraph (i) is hereinafter referred to as a "Bid" and collectively as "Bids" and (z) clause (A)(2) of this paragraph (i) is hereinafter referred to as a "Sell Order" and collectively as "Sell Orders."

(ii) (A) Subject to the provisions of subsection (b) below, a Bid by an Existing Owner shall constitute an irrevocable offer to sell:

(1) the principal amount of Outstanding ARCs specified in such Bid if the BMA Auction Spread Rate determined shall be less than the BMA Auction Spread Rate specified in such Bid; or

(2) such principal amount or a lesser principal amount of Outstanding ARCs to be determined as set forth in clause (D) of paragraph (i) of subsection (d) below, if the BMA Auction Spread Rate determined shall be equal to the rate specified in such Bid; or

(3) the principal amount of Outstanding ARCs specified in such Bid if the BMA Auction Spread Rate specified shall result in an Auction Rate on the Auction Date

higher than the Maximum Rate on the Auction Date and Sufficient Clearing Bids have not been made.

(B) Subject to the provisions of subsection (b) below, a Sell Order by an Existing Owner shall constitute an irrevocable offer to sell:

(1) the principal amount of Outstanding ARCs specified in such Sell Order; or

(2) the principal amount of Outstanding ARCs specified in such Bid if Sufficient Clearing Bids have not been made;

(C) Subject to the provisions of subsection (b) below, a Bid by a Potential Owner shall constitute an irrevocable offer to purchase:

(1) the principal amount of Outstanding ARCs specified in such Bid if the BMA Auction Spread Rate determined shall be higher than the BMA Auction Spread Rate specified in such Bid; or

(2) such principal amount or a lesser principal amount of Outstanding ARCs as set forth in clause (E) of paragraph (i) of subsection (d) below if the BMA Auction Spread Rate determined shall be equal to the BMA Auction Spread Rate specified in such Bid.

(b) *Submission by Broker-Dealer to Auction Agent.*

(i) Each Broker-Dealer shall submit in writing to the Auction Agent prior to the Submission Deadline (subject to clause (x) below) on each Auction Date all Orders obtained by such Broker-Dealer and shall specify with respect to each such Order:

(A) the name of the Bidder placing such Order;

(B) the aggregate principal amount of ARCs that are the subject of such Order;

(C) to the extent that such Bidder is an Existing Owner:

(1) the principal amount of ARCs, if any, subject to any Bid placed by such Existing Owner and the BMA Auction Spread Rate specified in such Bid; and

(2) the principal amount of ARCs, if any, subject to any Sell Order placed by such Existing Owner; and

(D) to the extent such Bidder is a Potential Owner, the BMA Auction Spread Rate and amount specified in such Potential Owner's Bid.

(ii) If any rate specified in any Bid contains more than three figures to the right of the decimal point, the Auction Agent shall round such rate up to the next highest one thousandth (.001) of 1%.

(iii) If an Order or Orders covering all Outstanding ARCs held by any Existing Owner is not submitted to the Auction Agent prior to the Submission Processing Deadline, the Auction Agent shall deem a Sell Order to have been submitted on behalf of such Existing Owner covering the principal amount of Outstanding ARCs held by such Existing Owner and not subject to an Order submitted to the Auction Agent.

(iv) Neither the Corporation, the Trustee nor the Auction Agent shall be responsible for any failure of a Broker-Dealer to submit an Order to the Auction Agent on behalf of any Existing Owner or Potential Owner.

(v) If any Existing Owner submits through a Broker-Dealer to the Auction Agent one or more Orders covering in the aggregate more than the principal amount of Outstanding ARCs held by such Existing Owner, such Orders shall be considered valid as follows and in the following order of priority:

(A) (1) any Bid shall be considered valid up to and including the principal amount of Outstanding ARCs held by such Existing Owner;

(2) subject to subclause (1) of this clause (A), if more than one Bid with the same BMA Auction Spread Rate is submitted on behalf of such Existing Owner and the aggregate principal amount of Outstanding ARCs subject to such Bids is greater than the principal amount of Outstanding ARCs held by such Existing Owner, such Bids shall be considered valid up to and including the principal amount of Outstanding ARCs held by such Existing Owner and the stated amount of ARCs subject to each Bid with the same BMA Auction Spread Rate shall be reduced pro rata to cover the principal amount of Outstanding ARCs held by such Existing Owner;

(3) subject to subclause (1) and (2) of this clause (A), if more than one Bid with different BMA Auction Spread Rates is submitted on behalf of such Existing Owner, such Bids shall be considered valid first in the ascending order of their respective BMA Auction Spread Rates until the highest BMA Auction Spread Rate is reached at which the principal amount of Outstanding ARCs held by such Existing Owner exists and then at such BMA Auction Spread Rate up to and including the principal amount of Outstanding ARCs held by such Existing Owner; and

(4) in any such event, the aggregate principal amount of Outstanding ARCs, if any, subject to Bids not valid under this clause (A) shall be treated as the subject of a Bid by a Potential Owner at the BMA Auction Spread Rate therein specified; and

(B) all Sell Orders shall be considered valid up to and including the principal amount of Outstanding ARCs held by such Existing Owner over the aggregate principal amount of ARCs subject to valid Bids referred to in clause (A) of this paragraph (v).

(vi) If more than one Bid for ARCs is submitted on behalf of any Potential Owner, each Bid submitted shall be a separate Bid with the BMA Auction Spread Rate and principal amount therein specified.

(vii) Any Bid or Sell Order submitted by an Existing Owner covering an aggregate principal amount of ARCs not equal to an Authorized Denomination therefor shall be rejected and shall be deemed a Sell Order for the entire amount of ARCs owned by such Existing Owner. Any Bid submitted by a Potential Owner covering an aggregate principal amount of ARCs not equal to an Authorized Denomination therefor shall be rejected.

(viii) An Existing Owner that offers to purchase additional ARCs is, for purposes of such offer, treated as a Potential Owner.

(ix) Any Bid specifying a BMA Auction Spread Rate which would result in an Auction Rate on the Auction Date higher than the Maximum Interest Rate on the Auction Date will (A) be treated as a Sell Order if submitted by an Existing Owner and (B) not be accepted if submitted by a Potential Owner.

(x) Notwithstanding the above provisions, a Broker-Dealer may submit an Order after the Submission Deadline and prior to the Submission Processing Deadline if the Order was (A) received by the Broker-Dealer from Existing Owners or Potential Owners prior to the Submission Deadline or (B) initiated internally by the Broker-Dealer for its own account prior to the Submission Deadline. Each Order submitted to the Auction Agent after the Submission Deadline and prior to the Submission Processing Deadline shall constitute a representation by the Broker-Dealer that such Order was (1) received from an Existing Owner or Potential Owner prior to the Submission Deadline or (2) initiated internally by the Broker-Dealer for its own account prior to the Submission Deadline (the "Submission Processing Representation").

(c) *Determination of Sufficient Clearing Bids, BMA Auction Spread Rate and Winning Bid.*

(i) Not earlier than the Submission Processing Deadline on each Auction Date, the Auction Agent shall assemble all valid Orders submitted or deemed submitted to it by the Broker-Dealers (each such Order as submitted or deemed submitted by a Broker-Dealer being hereinafter referred to individually as a "Submitted Bid" or a "Submitted Sell Order," as the case may be, or as a "Submitted Order" and collectively as "Submitted Bids" or "Submitted Sell Orders," as the case may be, or as "Submitted Orders") and shall determine:

(A) from such Submitted Orders whether:

(1) the aggregate principal amount of Outstanding ARCs subject to Submitted Bids by Potential Owners specifying one or more BMA Auction Spread Rates which would result in an Auction Rate on the Auction Date equal to or lower than the Maximum Rate on the Auction Date, exceeds or is equal to the sum of:

(2) the aggregate principal amount of Outstanding ARCs subject to Submitted Bids by Existing Owners specifying one or more BMA Auction Spread Rates which would result in an Auction Rate on the Auction Date higher than the Maximum Rate on the Auction Date; and

(3) the aggregate principal amount of Outstanding ARCs subject to Submitted Sell Orders;

(in the event such excess or such equality exists, such Submitted Bids in subclause (1) above being hereinafter referred to collectively as "Sufficient Clearing Bids"); and

(B) if Sufficient Clearing Bids have been made, the lowest BMA Auction Spread Rate specified in such Submitted Bids (which shall be the "Winning Bid Rate") such that if:

(1) (aa) each such Submitted Bid from Existing Owners specifying such lowest BMA Auction Spread Rate and (bb) all other Submitted Bids from Existing Owners specifying lower BMA Auction Spread Rates were rejected, thus entitling such Existing Owners to continue to hold the principal amount of ARCs subject to such Submitted Bids; and

(2) (aa) each such Submitted Bid from Potential Owners specifying such lowest BMA Auction Spread Rate and (bb) all other Submitted Bids from Potential Owners specifying lower BMA Auction Spread Rates were accepted;

the result would be that such Existing Owners described in subclause (1) above would continue to hold an aggregate principal amount of Outstanding ARCs which, when added to the aggregate principal amount of Outstanding ARCs to be purchased by such Potential Owners described in subclause (2) above, would equal not less than the aggregate principal amount of the ARCs.



(ii) Promptly after the Auction Agent has made the determinations as described under paragraph (i) of this subsection (c), the Auction Agent shall advise the Trustee of the Maximum Rate and the components thereof on the Auction Date and, based on such determinations, the BMA Auction Spread Rate for the next succeeding Interest Period (the “BMA Auction Spread Rate”) as follows:

(A) if Sufficient Clearing Bids have been made, that the BMA Auction Spread Rate for the next succeeding Interest Period shall be equal to the Winning Bid Rate so determined; or

(B) if Sufficient Clearing Bids have not been made, that the BMA Auction Mode shall no longer be in effect, that the Interest Period shall be 35 days and that the Auction Rate for the next succeeding Interest Period shall be equal to the Maximum Rate until the next Auction is held.

(d) *Acceptance and Rejection of Submitted Bids and Submitted Sell Orders and Allocation of ARCs.*

Based on the determinations made as described under paragraph (i) of subsection (c) above, Submitted Bids and Submitted Sell Orders shall be accepted or rejected and the Auction Agent shall take such other action as set forth below:

(i) If Sufficient Clearing Bids have been made, all Submitted Sell Orders shall be accepted and Submitted Bids shall be accepted or rejected as follows in the following order of priority and all other Submitted Bids shall be rejected:

(A) Existing Owners’ Submitted Bids specifying any BMA Auction Spread Rate that is higher than the Winning Bid Rate shall be accepted, thus requiring each such Existing Owner to sell the aggregate principal amount of ARCs subject to such Submitted Bids;

(B) Existing Owners’ Submitted Bids specifying any BMA Auction Spread Rate that is lower than the Winning Bid Rate shall be rejected, thus entitling each such Existing Owner to continue to hold the aggregate principal amount of ARCs subject to such Submitted Bids;

(C) Potential Owners’ Submitted Bids specifying any BMA Auction Spread Rate that is lower than the Winning Bid Rate shall be accepted, thus requiring such Potential Owner to purchase the aggregate principal amount of ARCs subject to such Submitted Bids;

(D) each Existing Owners’ Submitted Bid specifying a BMA Auction Spread Rate that is equal to the Winning Bid Rate shall be rejected, thus entitling such Existing Owner to continue to hold the aggregate principal amount of ARCs subject to such Submitted Bid, unless the aggregate principal amount of Outstanding ARCs subject to all such Submitted Bids shall be greater than the principal amount of ARCs (the “remaining principal amount”) equal to the excess of the Available ARCs over the aggregate principal amount of ARCs subject to Submitted Bids described in clauses (B) and (C) of this paragraph (i), in which event such Submitted Bid of such Existing Owner shall be rejected in part, and such Existing Owner shall be entitled to continue to hold the principal amount of ARCs subject to such Submitted Bid, but only in an amount equal to the aggregate principal amount of ARCs obtained by multiplying the remaining principal amount by a fraction the numerator of which shall be the principal amount of Outstanding ARCs held by such Existing Owner subject to such Submitted Bid and the denominator of which shall be the sum of the principal amount of Outstanding ARCs subject to such Submitted Bids made by all such Existing Owners that specified a BMA Auction Spread Rate equal to the Winning Bid Rate; and

(E) each Potential Owner’s Submitted Bid specifying a BMA Auction Spread Rate that is equal to the Winning Bid Rate shall be accepted but only in an amount equal to the principal amount of ARCs obtained by multiplying the aggregate principal amount of ARCs subject to Submitted Bids described in clauses (B), (C) and (D) of this paragraph (i) by a fraction

the numerator of which shall be the aggregate principal amount of Outstanding ARCs subject to such Submitted Bid and the denominator of which shall be the sum of the principal amounts of Outstanding ARCs subject to Submitted Bids made by all such Potential Owners that specified a BMA Auction Spread Rate equal to the Winning Bid Rate.

(ii) If Sufficient Clearing Bids have not been made then the BMA Auction Mode shall no longer be in effect, the Interest Period shall be 35 days, the Auction Rate for the next succeeding Interest Period shall be the Maximum Rate until the next Auction is held and the Existing Owners shall retain all of their ARCs.

If, as a result of the procedures described in paragraph (i) of this subsection (d), any Existing Owner would be entitled or required to sell, or any Potential Owner would be entitled or required to purchase, a principal amount of ARCs that is not equal to an Authorized Denomination therefor the Auction Agent shall, in such manner as it shall, in its sole discretion, determine, round up or down the principal amount of ARCs to be purchased or sold by any Existing Owner or Potential Owner so that the principal amount of ARCs purchased or sold by each Existing Owner or Potential Owner shall be equal to an Authorized Denomination, even if such allocation results in one or more of such Potential Owners not purchasing any ARCs.

(e) Based on the results of each Auction, the Auction Agent shall determine the aggregate principal amount of ARCs to be purchased and the aggregate principal amount of ARCs to be sold by Potential Owners and Existing Owners on whose behalf each Broker-Dealer submitted Bids or Sell Orders and, with respect to each Broker-Dealer, to the extent that such aggregate principal amount of ARCs to be sold differs from such aggregate principal amount of ARCs to be purchased, determine to which other Broker-Dealer or Broker-Dealers acting for one or more purchasers such Broker-Dealer shall deliver, or from which other Broker-Dealer or Broker-Dealers acting for one or more sellers such Broker-Dealer shall receive, as the case may be, ARCs.

(f) The Broker-Dealer Agreement shall provide that a Broker-Dealer may submit an order in Auctions for its own account. A Broker-Dealer may also bid in an Auction in order to prevent what would otherwise be (a) a failed Auction or (b) the implementation of a BMA Auction Spread Rate that the Broker-Dealer believes, in its sole judgment, does not reflect the market for such securities at the time of the Auction. A Broker-Dealer may encourage bidding by others to prevent a failed Auction or a BMA Auction Spread Rate it believes is not a market rate. In the Broker-Dealer Agreement, the Broker-Dealer shall agree to handle customer orders in accordance with its duties under applicable securities laws and rules.

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## APPENDIX G

### SETTLEMENT PROCEDURES FOR THE TAX-EXEMPT ARCS

Capitalized terms used in this Appendix G shall have the respective meanings specified in Appendix B or Appendix F of this Official Statement.

(a) Not later than 3:00 p.m. on each Auction Date, the Auction Agent is required to notify by telephone the Broker-Dealers that participated in the Auction held on such Auction Date and submitted an Order on behalf of any Existing Owner or Potential Owner of:

(i) the Auction Rate fixed for the next Interest Period and the BMA Auction Spread Rate, if applicable;

(ii) whether there were Sufficient Clearing Bids in such Auction;

(iii) if such Broker-Dealer (a "Seller's Broker-Dealer") submitted a Bid or a Sell Order on behalf of an Existing Owner, whether such Bid or Sell Order was accepted or rejected, in whole or in part, and the principal amount of ARCs, if any, to be sold by such Existing Owner;

(iv) if such Broker-Dealer (a "Buyer's Broker-Dealer") submitted a Bid on behalf of a Potential Owner, whether such Bid was accepted or rejected, in whole or in part, and the principal amount of ARCs, if any, to be purchased by such Potential Owner;

(v) if the aggregate principal amount of ARCs to be sold by all Existing Owners on whose behalf such Broker-Dealer submitted Bids or Sell Orders exceeds the aggregate principal amount of ARCs to be purchased by all Potential Owners on whose behalf such Broker-Dealer submitted a Bid, the name or names of one or more other Buyer's Broker-Dealers (and the Participant, if any, of each such other Buyer's Broker-Dealer) acting for one or more purchasers of such excess principal amount of ARCs and the principal amount of ARCs to be purchased from one or more Existing Owners on whose behalf such Broker-Dealer acted by one or more Potential Owners on whose behalf each of such other Buyer's Broker-Dealers acted;

(vi) if the principal amount of ARCs to be purchased by all Potential Owners on whose behalf such Broker-Dealer submitted a Bid exceeds the amount of ARCs to be sold by all Existing Owners on whose behalf such Broker-Dealer submitted a Bid or a Sell Order, the name or names of one or more Seller's Broker-Dealers (and the Participant, if any, of each such Seller's Broker-Dealer) acting for one or more sellers of such excess principal amount of ARCs and the principal amount of ARCs to be sold to one or more Potential Owners on whose behalf such Broker-Dealer acted by one or more Existing Owners on whose behalf each of such Seller's Broker-Dealers acted;

(vii) unless previously provided, a list of all Applicable ARCs Rates and related Interest Periods (or portions thereof) since the last Interest Payment Date; and

(viii) the Auction Date for the next succeeding Auction.

(b) On each Auction Date, each Broker-Dealer that submitted an Order on behalf of any Existing Owner or Potential Owner shall:

(i) advise each Existing Owner and Potential Owner on whose behalf such Broker Dealer submitted a Bid or Sell Order in the Auction on such Auction Date whether such Bid or Sell Order was accepted or rejected, in whole or in part;

(ii) instruct each Potential Owner on whose behalf such Broker-Dealer submitted a Bid that was accepted, in whole or in part, to instruct such Bidder's Participant to pay to such Broker Dealer (or its Participant) through DTC the amount necessary to purchase the principal amount of ARCs to be purchased pursuant to such Bid against receipt of such principal amount of ARCs;

(iii) in the case of a Broker-Dealer that is a Seller's Broker-Dealer, instruct each Existing Owner on whose behalf such Broker-Dealer submitted a Sell Order that was accepted, in whole or in part, or a Bid that was accepted, in whole or in part, to instruct such Existing Owner's Participant to deliver to such Broker-Dealer (or its Participant) through DTC the principal amount of ARCs to be sold pursuant to such Bid or Sell Order against payment therefor;

(iv) advise each Existing Owner on whose behalf such Broker-Dealer submitted an Order and each Potential Owner on whose behalf such Broker-Dealer submitted a Bid of the Auction Rate for the next Interest Period and the BMA Auction Spread Rate, if applicable;

(v) advise each Existing Owner on whose behalf such Broker-Dealer submitted an Order of the next Auction Date; and

(vi) advise each Potential Owner on whose behalf such Broker-Dealer submitted a Bid that was accepted, in whole or in part, of the next Auction Date.

(c) On the basis of the information provided to it pursuant to paragraph (a) above, each Broker-Dealer that submitted a Bid or Sell Order in an Auction is required to allocate any funds received by it pursuant to paragraph (b)(ii) above, and any ARCs received by it pursuant to paragraph (b)(iii) above, among the Potential Owners, if any, on whose behalf such Broker-Dealer submitted Bids, the Existing Owners, if any, on whose behalf such Broker-Dealer submitted Bids or Sell Orders in such Auction, and any Broker-Dealers identified to it by the Auction Agent following such Auction pursuant to paragraph (a)(v) or (a)(vi) above.

(d) On each Auction Date:

(i) each Potential Owner and Existing Owner with an Order in the Auction on such Auction Date shall instruct its Participant as provided in (b)(ii) or (b)(iii) above, as the case may be;

(ii) each Seller's Broker-Dealer that is not a Participant in DTC shall instruct its Participant to (A) pay through DTC to the Participant of the Existing Owner delivering ARCs to such Broker-Dealer following such Auction pursuant to (b)(iii) above the amount necessary, including accrued interest, if any, to purchase such ARCs against receipt of such ARCs, and (B) deliver such ARCs through DTC to a Buyer's Broker-Dealer (or its Participant) identified to such Seller's Broker-Dealer pursuant to (a)(v) above against payment therefor; and

(iii) each Buyer's Broker-Dealer that is not a Participant in DTC shall instruct its Participant to (A) pay through DTC to a Seller's Broker-Dealer (or its Participant) identified following such Auction pursuant to (a)(vi) above the amount necessary, including accrued interest, if any, to purchase the ARCs to be purchased pursuant to (b)(ii) above against receipt of such ARCs, and (B) deliver such ARCs through DTC to the Participant of the purchaser thereof against payment therefor.

(e) On the first Business Day of the Interest Period next succeeding each Auction Date:

(i) each Participant for a Bidder in the Auction on such Auction Date referred to in (d)(i) above shall instruct DTC to execute the transactions described under (b)(ii) or (b)(iii) above for such Auction, and DTC shall execute such transactions;

(ii) each Seller's Broker-Dealer or its Participant shall instruct DTC to execute the transactions described in (d)(ii) above for such Auction, and DTC shall execute such transactions; and

(iii) each Buyer's Broker-Dealer or its Participant shall instruct DTC to execute the transactions described in (d)(iii) above for such Auction, and DTC shall execute such transactions.

(f) If an Existing Owner selling ARCs in an Auction fails to deliver such ARCs (by authorized book-entry), a Broker-Dealer may deliver to the Potential Owner on behalf of which it submitted a Bid that was accepted a principal amount of ARCs that is less than the principal amount of ARCs that otherwise was to be purchased by such Potential Owner (but only in Authorized Denominations). In such event, the principal amount of ARCs to be so delivered shall be determined solely by such Broker-Dealer (but only in Authorized Denominations). Delivery of such lesser principal amount of ARCs shall constitute good delivery. Notwithstanding the foregoing terms of this paragraph (f), any delivery or nondelivery of ARCs which shall represent any departure from the results of an Auction, as determined by the Auction Agent, shall be of no effect unless and until the Auction Agent shall have been notified of such delivery or nondelivery in accordance with the provisions of the Auction Agency Agreement and the Broker-Dealer Agreement.

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## APPENDIX H

### AUCTION PROCEDURES FOR THE TAXABLE ARCS

The Auction Procedures for the Taxable ARCs are as set forth below. All of the terms used in this Appendix H are defined herein or in other parts of this Official Statement. *“ARCs” or “Taxable ARCs” means the Series 2005A-2 Bonds and each series of the 2005 Additional Bonds.*

#### Definitions

*“All-Hold Rate”* on any date of determination, shall mean the Applicable LIBOR-Based Rate less 0.25%, provided that in no event shall the applicable All-Hold Rate be greater than the Maximum Rate.

*“Applicable ARCs Rate”* shall mean the interest rate on the ARCs for any period after the Initial Interest Period.

*“Applicable LIBOR-Based Rate”* shall mean (a) for an Auction Period of 35 days or less, One-Month LIBOR, (b) for an Auction Period of more than 35 days but less than 115 days, Three-Month LIBOR, (c) for an Auction Period of more than 114 days but less than 195 days, Six-Month LIBOR, and (d) for an Auction Period of more than 194 days, One-Year LIBOR.

*“Applicable Number of Business Days”* shall mean the greater of two Business Days or one Business Day plus the number of Business Days by which the Auction Date precedes the first day of the next succeeding Interest Period.

*“Auction”* shall mean each periodic implementation of the Auction Procedures, as described herein.

*“Auction Agency Agreement”* shall mean the Auction Agency Agreement dated as of September 1, 2005, between the Trustee and the Auction Agent, relating to the Taxable ARCs, and any similar agreement with a successor Auction Agent, in each case as from time to time amended or supplemented.

*“Auction Agent”* means any person appointed as such with respect to the Taxable ARCs pursuant to the Indenture.

*“Auction Date”* shall mean the Business Day immediately preceding the first day of each respective Interest Period, other than:

- (a) each Interest Period commencing after the ownership of the ARCs of such series is no longer maintained in book-entry form by the Depository;
- (b) each Interest Period commencing after the occurrence and during the continuance of a Payment Default, or
- (c) any Interest Period commencing less than the Applicable Number of Business Days after the cure or waiver of a Payment Default.

Notwithstanding the foregoing, the Auction Date for one or more Auction Periods may be changed pursuant to the Indenture.

*“Auction Period”* shall mean the Interest Period applicable to the ARCs which initially shall consist generally of 28 days, as the same may be changed pursuant to the Indenture.

*“Authorized Denominations”* shall mean \$50,000 and any multiples thereof.



*“Broker-Dealer”* shall mean UBS Financial Services Inc. or any other broker or dealer (each as defined in the Securities Exchange Act), commercial bank or other entity permitted by law to perform the functions required of a Broker-Dealer set forth in the Auction Procedures that (a) is a Participant (or an affiliate of a Participant), (b) has been selected by the Corporation with the approval of the Market Agent (which approval shall not be unreasonably withheld), and (c) has entered into a Broker-Dealer Agreement that remains effective.

*“Broker-Dealer Agreement”* shall mean the Broker-Dealer Agreement dated as of September 1, 2005 between the Auction Agent and the Broker-Dealer, relating to the Taxable ARCs, and each other agreement between the Auction Agent and a Broker-Dealer pursuant to which the Broker-Dealer agrees to participate in Auctions as set forth in the Auction Procedures, as from time to time amended or supplemented.

*“Business Day”* shall mean any day other than a Saturday, Sunday, holiday or day on which banks located in the City of New York, New York, or the New York Stock Exchange, the Trustee or the Auction Agent, are authorized or permitted by law or executive order to close or such other dates as may be agreed to in writing by the Market Agent, the Auction Agent, the Broker-Dealer and the Corporation.

*“Carry-over Amount”* shall mean the excess, if any, of (a) the amount of interest on a Taxable ARC that would have accrued with respect to the related Auction Period at the lesser of the Auction Rate or the Maximum Interest Rate over (b) the amount of interest on such Taxable ARC actually accrued with respect to such Taxable ARC, with respect to such Auction Period based on the Maximum Rate, together with the unpaid portion of any such excess from prior Auction Periods; provided that any reference to “principal” or “interest” in the Indenture and in the Taxable ARCs shall not include within the meanings of such words any Carry-over Amount or any interest accrued on any Carry-over Amount.

*“Existing Owner”* shall mean (a) with respect to and for the purpose of dealing with the Auction Agent in connection with an Auction, a Person who is a Broker-Dealer listed in the existing owner registry at the close of business on the Business Day immediately preceding the Auction Date for such Auction and (b) with respect to and for the purpose of dealing with the Broker-Dealer in connection with an Auction a Person who is a beneficial owner of ARCs.

*“Initial Interest Period”* shall mean (a) with respect to the Series 2005A-2 Bonds and the Series 2005A-3 Bonds, the period from the date of issuance of the Series 2005A-2 Bonds and the Series 2005A-3 Bonds and ending on and including October 4, 2005 and (b) with respect to each series of the 2005 Additional Bonds, the period from the respective date of issuance of each series of the 2005 Additional Bonds and ending on and including the date set forth in the Additional Series 2005 Supplemental Indenture related to such series of the 2005 Additional Bonds.

*“Interest Payment Date”* shall mean the Business Day following the last day of each Interest Period, except as changed as provided herein, provided, however, that if the duration of the Interest Period is one year or longer, then the Interest Payment Date therefor shall be each June 1 and December 1 (or if any such date is not a Business Day, then the next succeeding Business Day) during such Interest Period and the Business Day following the last day of such Interest Period; and shall also mean the maturity date of the Bonds, or if such maturity date is not a Business Day, the next succeeding Business Day (but only for interest accrued through the last day of the Interest Period next preceding such Interest Payment Date).

*“Interest Period”* shall mean (a) unless otherwise changed as described herein, with respect to the Taxable ARCs, the Initial Interest Period, and each successive period of generally 28 days thereafter, respectively, commencing in the case of the Series 2005A-2 Bonds and the Series 2005A-3 Bonds on a Wednesday (or the Business Day following the last day of the prior Interest Period, if the prior Interest Period does not end on a Tuesday) and ending on (and including) a Tuesday (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day that is followed by a Business Day), and in the case of each series of the 2005 Additional Bonds, as set forth in the Additional Series 2005 Supplemental Indenture related to such series of the 2005 Additional Bonds, and (b) if the Auction Periods are changed as provided herein, each period commencing on an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date.

*“LIBOR Determination Date”* shall mean the Auction Date, or if no Auction Date is applicable, the Business Day immediately preceding the first day of each Interest Period.

*"Market Agent Agreement"* shall mean the Market Agent Agreement dated as of September 1, 2005, between the Trustee and the Market Agent, relating to the Taxable ARCs, and any similar agreement with a successor Market Agent, in each case as from time to time amended or supplemented.

*"Maximum Auction Rate"* shall mean, for any Auction, a per annum interest rate on the ARCs which, when taken together with the interest rate on the ARCs for the one-year period ending on the final day of the proposed Auction Period, would result in the average interest rate on the ARCs for such period either (a) not being in excess (on a per annum basis) of the average of the Ninety-One Day United States Treasury Bill Rate plus 1.20% for such one-year period (if all of the ratings assigned by the Rating Agencies to the ARCs are "Aa3" or "AA-" or better), (b) not being in excess (on a per annum basis) of the Ninety-One Day United States Treasury Bill Rate plus 1.50% for such one-year period (if any one of the ratings assigned by the Rating Agencies to the ARCs is less than "Aa3" or "AA-" but both are at least any category of "A"), or (c), not being in excess (on a per annum basis) of the average of the Ninety-One Day United States Treasury Bill Rate plus 1.75% for such one-year period (if any one of the ratings assigned by the Rating Agencies to the ARCs is less than the lowest category of "A"); provided, however, that if the ARCs have not been outstanding for at least such one-year period then for any portion of such period during which such ARCs were not outstanding, the interest rate on the ARCs for purposes of this definition, shall be deemed to be equal to such rates as the Market Agent shall determine were the rates of interest on equivalently rated auction securities with comparable lengths of auction periods during such period; provided further, however, that for any Auction with respect to the Taxable ARCs rated "A" or better, the Maximum Auction Rate shall not exceed the Applicable LIBOR-Based Rate plus 1.50%; and provided further, however, that this definition may be modified at the direction of the Corporation upon receipt by the Trustee of (a) written consent of the Market Agent and (b) written consent from each Rating Agency rating the ARCs that such change will not in and of itself result in reduction of the rating on any ARCs.

For purposes of the Auction Agent and the Auction Procedures, the ratings referred to in this definition shall be the last ratings of which the Auction Agent has been given notice pursuant to the Auction Agency Agreement. The percentage amount to be added to the Ninety-One Day United States Treasury Bill Rate in any one or more of clauses (a), (b) or (c) above may be increased by delivery to the Auction Agent and the Trustee of a certificate signed by an Authorized Officer of the Corporation directing such increase, together with a Rating Confirmation.

*"Maximum Interest Rate"* shall mean the lesser of (a) 18% per annum or such higher rate as may be permitted with a Rating Confirmation or (b) the maximum rate of interest permitted by the laws of the Commonwealth of Kentucky.

*"Maximum Rate,"* on any date of determination, shall mean the interest rate per annum equal to the lesser of: (a) the Maximum Auction Rate; and (b) the Maximum Interest Rate, in each case rounded to the nearest one-thousandth (.001) of 1%.

*"Ninety-One Day United States Treasury Bill Rate"* shall mean the bond equivalent yield on the 91-day United States Treasury Bills sold at the last auction thereof that immediately precedes the Auction Date, as determined by the Market Agent on the Auction Date.

*"Non-Payment Rate,"* on any date of determination shall mean the interest rate per annum equal to the lesser of (a) the sum of One-Month LIBOR plus 1.50% and (b) the Maximum Interest Rate, rounded to the nearest one-thousandth (.001) of 1%.

*"One-Month LIBOR"* "Three-Month LIBOR," "Six-Month LIBOR" or "One-Year LIBOR" means the offered rate, as determined by the Auction Agent or the Trustee, as applicable, of the Applicable LIBOR Based Rate for United States dollar deposits which appears on Telerate Page 3750, as reported by Bloomberg Financial Markets Commodities News (or such other page as may replace Telerate Page 3750 for the purpose of displaying comparable rates) as of approximately 11:00 a.m. London time, on the LIBOR Determination Date; provided, that if on any calculation date, no rate appears on Telerate Page 3750 as specified above, the Auction Agent or the Trustee, as applicable, shall determine the arithmetic mean of the offered quotations for four major banks in the London interbank market, for deposits in U.S. dollars for the respective period specified above for the banks in the London

interbank market as of approximately 11:00 a.m., London time, on such calculation date and in a principal amount of not less than \$1,000,000 that is representative of a single transaction in such market and at such time, unless fewer than two such quotations are provided, in which case, the Applicable LIBOR Based Rate shall be the arithmetic mean of the offered quotations that leading banks in New York City selected by the Auction Agent or the Trustee, as applicable, are quoting on the relevant LIBOR Determination Date for loans in U.S. dollars to leading European banks in a principal amount of not less than \$1,000,000 that is representative of a single transaction in such market at such time. All percentages resulting from such calculations shall be rounded upwards, if necessary, to the nearest one hundredth of one percent.

“*Owner*” shall mean the beneficial owner of any ARCs.

“*Payment Default*” shall mean failure to make payment of interest on, premium, if any, and principal of the ARCs when due, by the Corporation.

“*Potential Owner*” shall mean any Person (including any Existing Owner that is (a) a Broker-Dealer when dealing with an Auction Agent and (b) a potential beneficial owner when dealing with a Broker-Dealer) who may be interested in acquiring ARCs (or, in the case of an Existing Owner thereof, an additional principal amount of ARCs).

“*Record Date*” shall mean, with respect to the ARCs, one Business Day prior to each Interest Payment Date.

“*Redemption Date*,” when used with respect to any ARCs to be redeemed, shall mean the date fixed for such redemption.

“*Securities Exchange Act*” shall mean the Securities Exchange Act of 1934, as amended.

“*Submission Deadline*” shall mean 1:00 p.m. on any Auction Date or such other time on any Auction Date by which Broker-Dealers are required to submit Orders to the Auction Agent, as specified by the Auction Agent from time to time.

“*Submission Processing Deadline*” means the earlier of (a) 40 minutes after the Submission Deadline, and (b) the time when the Auction Agent begins to disseminate the results of the Auction to the Broker Dealers.

“*Submission Processing Representation*” has the meaning specified in Section (b)(xi) below.

“*Winning Bid Rate*” shall have the meaning set forth in the Indenture.

## **Introduction**

Auctions shall be conducted on each Auction Date (other than the Auction Date immediately preceding (a) each Interest Period commencing after the ownership of the ARCs is no longer maintained in book-entry form by a Securities Depository; (b) each Interest Period commencing after the occurrence and during the continuance of a Payment Default; or (c) any Interest Period commencing less than two Business Days after the cure of a Payment Default). If there is an Auction Agent on such Auction Date, Auctions shall be conducted in the following manner:

(a) *Submission by Existing Owners and Potential Owners.*

(i) Prior to the Submission Deadline on each Auction Date:

(A) each Existing Owner of ARCs may submit to a Broker-Dealer information as to: (1) the principal amount of Outstanding ARCs, if any, held by such Existing Owner which such Existing Owner desires to continue to hold without regard to the Auction Rate for the next succeeding Interest Period; (2) the principal amount of Outstanding ARCs, if any, which such Existing Owner offers to sell if the Auction Rate for the next succeeding Interest Period shall be less than the rate per annum specified by such Existing Owner; and/or (3) the principal amount of Outstanding ARCs, if any, held by

such Existing Owner which such Existing Owner offers to sell without regard to the Auction Rate for the next succeeding Interest Period; and

(B) one or more Broker-Dealers may contact Potential Owners to determine the principal amount of ARCs which each such Potential Owner offers to purchase if the Auction Rate for the next succeeding Interest Period shall not be less than the rate per annum specified by such Potential Owner.

The communication to a Broker-Dealer of information referred to in clause (A)(1), (A)(2), (A)(3) or (B) of this subsection (a)(i) is hereinafter referred to as an "Order" and collectively as "Orders." Each Existing Owner and each Potential Owner placing an Order is hereinafter referred to as a "Bidder" and collectively as "Bidders." An Order containing the information referred to in clause (A)(1) of this subsection (a)(i) is hereinafter referred to as a "Hold Order" and collectively as "Hold Orders." An Order containing the information referred to in clause (A)(2) or (B) of this subsection (a)(i) is hereinafter referred to as a "Bid" and collectively as "Bids." An order containing the information referred to in clause (A)(3) of this subsection (a)(i) is hereinafter referred to as "Sell Order" and collectively as "Sell Orders."

(ii) (A) Subject to the provisions of subsection (b) below, a Bid by an Existing Owner shall constitute an irrevocable offer to sell: (1) the principal amount of Outstanding ARCs specified in such Bid if the Auction Rate determined shall be less than the rate specified in such Bid; or (2) such principal amount or a lesser principal amount of Outstanding ARCs to be determined as set forth in clause (D) of paragraph (i) of subsection (d) below, if the Auction Rate determined shall be equal to the rate specified in such Bid; or (3) such principal amount or a lesser principal amount of Outstanding ARCs to be determined as set forth in clause (C) of paragraph (ii) of subsection (d) below if the rate specified shall be higher than the Maximum Rate and Sufficient Clearing Bids have not been made.

(B) Subject to the provisions of subsection (b) below, a Sell Order by an Existing Owner shall constitute an irrevocable offer to sell: (1) the principal amount of Outstanding ARCs specified in such Sell Order; or (2) such principal amount or a lesser principal amount of Outstanding ARCs as set forth in clause (C) of paragraph (ii) of subsection (d) below if Sufficient Clearing Bids have not been made.

(C) Subject to the provisions of subsection (b) below, a Bid by a Potential Owner shall constitute an irrevocable offer to purchase: (1) the principal amount of Outstanding ARCs specified in such Bid if the Auction Rate determined shall be higher than the rate specified in such Bid; or (2) such principal amount or a lesser principal amount of Outstanding ARCs as set forth in clause (E) of paragraph (i) of subsection (d) below if the Auction Rate determined shall be equal to the rate specified in such Bid.

(b) *Submission by Broker-Dealer to Auction Agent.*

(i) Each Broker-Dealer shall submit in writing to the Auction Agent prior to the Submission Deadline (subject to clause (xi) below) on each Auction Date all Orders obtained by such Broker-Dealer and shall specify with respect to each such Order:

(A) the name of the Bidder placing such Order,

(B) the aggregate principal amount of ARCs that are the subject of such Order,

(C) to the extent that such Bidder is an Existing Owner: (1) the principal amount of ARCs, if any, subject to any Hold Order placed by such Existing Owner; (2) the principal amount of ARCs, if any, subject to any Bid placed by such Existing Owner and the rate specified in such Bid; and (3) the principal amount of ARCs, if any, subject to any Sell Order placed by such Existing Owner; and

(D) to the extent such Bidder is a Potential Owner, the rate and amount specified in such Potential Owner's Bid.

(ii) If any rate specified in any Bid contains more than three figures to the right of the decimal point, the Auction Agent shall round such rate up to the next highest one-thousandth (.001) of 1%.

(iii) If an Order or Orders covering all Outstanding ARCs held by any Existing Owner is not submitted to the Auction Agent prior to the Submission Processing Deadline, the Auction Agent shall deem a Hold Order to have been submitted on behalf of such Existing Owner covering the principal amount of Outstanding ARCs held by such Existing Owner and not subject to an Order submitted to the Auction Agent.

(iv) None of the Corporation, the Trustee nor the Auction Agent shall be responsible for any failure of a Broker-Dealer to submit an Order to the Auction Agent on behalf of any Existing Owner or Potential Owner.

(v) If any Existing Owner submits through a Broker-Dealer to the Auction Agent one or more Orders covering in the aggregate more than the principal amount of Outstanding ARCs held by such Existing Owner, such Orders shall be considered valid as follows and in the following order of priority:

(A) all Hold Orders shall be considered valid, but only up to and including in the aggregate the principal amount of ARCs held by such Existing Owner, and if the aggregate principal amount of ARCs subject to such Hold Orders exceeds the aggregate principal amount of ARCs held by such Existing Owner, the aggregate principal amount of ARCs subject to each such Hold Order shall be reduced pro rata to cover the aggregate principal amount of Outstanding ARCs held by such Existing Owner.

(B) (1) any Bid shall be considered valid up to and including the excess of the principal amount of Outstanding ARCs held by such Existing Owner over the aggregate principal amount of ARCs subject to any Hold Orders referred to in clause (A) of this paragraph (v); (2) subject to subclause (1) of this clause (B), if more than one Bid with the same rate is submitted on behalf of such Existing Owner and the aggregate principal amount of Outstanding ARCs subject to such Bids is greater than such excess, such Bids shall be considered valid up to and including the amount of such excess and the stated amount of ARCs subject to each Bid with the same rate shall be redeemed pro rata to cover the stated amount of ARCs equal to such excess; (3) subject to subclauses (1) and (2) of this clause (B), if more than one Bid with different rates is submitted on behalf of such Existing Owner, such Bids shall be considered valid first in the ascending order of their respective rates until the highest rate is reached at which such excess exists and then at such rate up to and including the amount of such excess; and (4) in any such event, the aggregate principal amount of Outstanding ARCs, if any, subject to Bids not valid under this clause (B) shall be treated as the subject of a Bid by a Potential Owner at the rate therein specified; and

(C) all Sell Orders shall be considered valid up to and including the excess of the principal amount of Outstanding ARCs held by such Existing Owner over the aggregate principal amount of ARCs subject to valid Hold Orders referred to in clause (A) of this paragraph (v) and valid Bids referred to in clause (B) of this paragraph (v).

(vi) If more than one Bid for ARCs is submitted on behalf of any Potential Owner, each Bid submitted shall be a separate Bid with the rate and principal amount therein specified.

(vii) Any Bid or Sell Order submitted by an Existing Owner covering an aggregate principal amount of ARCs not equal to an Authorized Denomination shall be rejected and shall be deemed a Hold Order. Any Bid submitted by a Potential Owner covering an aggregate principal amount of ARCs not equal to an Authorized Denomination or any multiple thereof shall be rejected.

(viii) Any Bid submitted by an Existing Owner or a Potential Owner specifying a rate lower than the All-Hold Rate shall be treated as a Bid specifying the All-Hold Rate and any such Bid shall be considered as valid and shall be selected in the ascending order of the respective rates in the Submitted Bids.

(ix) An Existing Owner that offers to purchase additional ARCs is, for purposes of such offer, treated as a Potential Owner.

(x) Any Bid specifying a rate higher than the Maximum Interest Rate will: (A) be treated as a Sell Order if submitted by an Existing Owner; and (B) not be accepted if submitted by a Potential Owner.

(xi) Notwithstanding the above provisions, a Broker-Dealer may submit an Order after the Submission Deadline and prior to the Submission Processing Deadline if the Order was (A) received by the Broker-Dealer from Existing Owners or Potential Owners prior to the Submission Deadline or (B) initiated internally by the Broker-Dealer for its own account prior to the Submission Deadline. Each Order submitted to the Auction Agent after the Submission Deadline and prior to the Submission Processing Deadline shall constitute a representation by the Broker-Dealer that such Order was (1) received from an Existing Owner or Potential Owner prior to the Submission Deadline or (2) initiated internally by the Broker-Dealer for its own account prior to the Submission Deadline (the "Submission Processing Representation").

(c) *Determination of Sufficient Clearing Bids, Auction Rate and Winning Bid Rate.*

(i) Not earlier than the Submission Deadline on each Auction Date, the Auction Agent shall assemble all valid Orders submitted or deemed submitted to it by the Broker-Dealers (each such Order as submitted or deemed submitted by a Broker-Dealer being hereinafter referred to individually as a "Submitted Hold Order," a "Submitted Bid" or a "Submitted Sell Order," as the case may be, or as a "Submitted Order" and collectively as "Submitted Hold Orders," "Submitted Bids" or "Submitted Sell Orders," as the case may be, or as "Submitted Orders") and shall determine:

(A) the excess of the total principal amount of Outstanding ARCs over the sum of the aggregate principal amount of Outstanding ARCs subject to Submitted Hold Orders (such excess being hereinafter referred to as the "Available ARCs"); and

(B) from such Submitted Orders whether (1) the aggregate principal amount of Outstanding ARCs subject to Submitted Bids by Potential Owners specifying one or more rates equal to or lower than the Maximum Interest Rate; exceeds or is equal to the sum of: (2) the aggregate principal amount of Outstanding ARCs subject to Submitted Bids by Existing Owners specifying one or more rates higher than the Maximum Interest Rate; and (3) the aggregate principal amount of Outstanding ARCs subject to Submitted Sell Orders (in the event such excess or such equality exists, other than because the sum of the principal amounts of ARCs in subclauses (1) and (3) above is zero because all of the Outstanding ARCs are subject to Submitted Hold Orders, such Submitted Bids in subclause (1) above being hereinafter referred to collectively as "Sufficient Clearing Bids"); and

(C) if Sufficient Clearing Bids have been made, the lowest rate specified in such Submitted Bids (which shall be the "Winning Bid Rate") such that if: (1)(a) each such Submitted Bid from Existing Owners specifying such lowest rate and (b) all other Submitted Bids from Existing Owners specifying lower rates were rejected, thus entitling such Existing Owners to continue to hold the principal amount of ARCs subject to such Submitted Bids; and (2)(a) each such Submitted Bid from Potential Owners specifying such lowest rate and (b) all other Submitted Bids from Potential Owners specifying lower rates were accepted, the result would be that such Existing Owners described in subclause (1) above would continue to hold an aggregate principal amount of Outstanding ARCs which, when added to the aggregate principal amount of Outstanding ARCs to be purchased by such Potential Owners described in subclause (2) above, would equal not less than the Available ARCs.

(ii) Promptly after the Auction Agent has made the determinations pursuant to paragraph (i) of this subsection (c), the Auction Agent shall advise the Trustee of the Maximum Rate, the Maximum Auction Rate, the Maximum Interest Rate, the All-Hold Rate, One-Month LIBOR, and the Applicable LIBOR-Based Rate and the components thereof on the Auction Date and, based on such determinations, the Auction Rate for the next succeeding Interest Period (the "Auction Rate") as follows:

(A) if Sufficient Clearing Bids have been made, that the Auction Rate for the next succeeding Interest Period shall be equal to the Winning Bid Rate so determined;

(B) if Sufficient Clearing Bids have not been made (other than because all of the Outstanding ARCs are subject to Submitted Hold Orders), that the Auction Rate for the next succeeding Interest Period shall be equal to the Maximum Rate; or

(C) if all Outstanding ARCs are subject to Submitted Hold Orders, that the Auction Rate for the next succeeding Interest Period shall be equal to the All-Hold Rate.

If the Auction Rate determined as set forth above exceeds the Maximum Rate, the Applicable ARCs Rate for such Interest Period shall be equal to the Maximum Rate, and the excess of the amount of interest on the ARCs that would have accrued at the rate equal to the Auction Rate over the amount of interest on such ARCs actually accrued at the Maximum Rate will accrue as the Carry-over Amount. The Carry-over Amount will bear interest at a rate equal to One-Month LIBOR from the Interest Payment Date for the Interest Period for which the Carry-over Amount was calculated until paid or until extinguished in accordance with the Indenture.

(d) *Acceptance and Rejection of Submitted Bids and Submitted Sell Orders and Allocation of ARCs.* Existing Owners shall continue to hold the principal amount of ARCs that are subject to Submitted Hold Orders, and based on the determinations made pursuant to (i) of subsection (c), Submitted Bids and Submitted Sell Orders shall be accepted or rejected and the Auction Agent shall take such other action as set forth below:

(i) if Sufficient Clearing Bids have been made, all Submitted Sell Orders shall be accepted and, subject to the provisions of paragraph (iv) of this subsection (d), Submitted Bids shall be accepted or rejected as follows in the following order of priority and all other Submitted Bids shall be rejected:

(A) Existing Owners' Submitted Bids specifying any rate that is higher than the Winning Bid Rate shall be accepted, thus requiring each such Existing Owner to sell the aggregate principal amount of ARCs subject to such Submitted Bids;

(B) Existing Owners' Submitted Bids specifying any rate that is lower than the Winning Bid Rate shall be rejected, thus entitling each such Existing Owner to continue to hold the aggregate principal amount of ARCs subject to such Submitted Bids;

(C) Potential Owners' Submitted Bids specifying any rate that is lower than the Winning Bid Rate shall be accepted, thus requiring such Potential Owner to purchase the aggregate principal amount of ARCs subject to such Submitted Bids;

(D) each Existing Owner's Submitted Bid specifying a rate that is equal to the Winning Bid Rate shall be rejected, thus entitling such Existing Owner to continue to hold the aggregate principal amount of ARCs subject to such Submitted Bid, unless the aggregate principal amount of Outstanding ARCs subject to all such Submitted Bids shall be greater than the principal amount of ARCs (the "remaining principal amount") equal to the excess of the Available ARCs over the aggregate principal amount of ARCs subject to Submitted Bids described in clauses (B) and (C) of this paragraph (i), in which event such Submitted Bid of such Existing Owner shall be rejected in part, and such Existing Owner shall be entitled to continue to hold the principal amount of ARCs subject to such Submitted Bid, but only in an amount equal to the aggregate principal amount of ARCs obtained by multiplying the remaining principal amount by a fraction the numerator of which shall be the principal amount of Outstanding ARCs held by such Existing

Owner subject to such Submitted Bid and the denominator of which shall be the sum of the principal amount of Outstanding ARCs subject to such Submitted Bids made by all such Existing Owners that specified a rate equal to the Winning Bid Rate; and

(E) each Potential Owner's Submitted Bid specifying a rate that is equal to the Winning Bid Rate shall be accepted but only in an amount equal to the principal amount of ARCs obtained by multiplying the excess of the aggregate principal amount of Available ARCs over the aggregate principal amount of ARCs subject to Submitted Bids described in clauses (B), (C) and (D) of this paragraph (i) by a fraction the numerator of which shall be the aggregate principal amount of Outstanding ARCs subject to such Submitted Bid and the denominator of which shall be the sum of the principal amounts of Outstanding ARCs subject to Submitted Bids made by all such Potential Owners that specified a rate equal to the Winning Bid Rate;

(ii) If Sufficient Clearing Bids have not been made (other than because all of the Outstanding ARCs are subject to Submitted Hold Orders), subject to the provisions of paragraph (iv) of this subsection (d), Submitted Orders shall be accepted or rejected as follows in the following order of priority and all other Submitted Bids shall be rejected;

(A) Existing Owners' Submitted Bids specifying any rate that is equal to or lower than the Maximum Rate shall be rejected, thus entitling such Existing Owners to continue, to hold the aggregate principal amount of ARCs subject to such Submitted Bids;

(B) Potential Owners' Submitted Bids specifying any rate that is equal to or lower than the Maximum Rate shall be accepted, thus requiring each Potential Owner to purchase, the aggregate principal amount of ARCs subject to such Submitted Bids; and

(C) each Existing Owner's Submitted Bid specifying any rate that is higher than the Maximum Rate and the Submitted Sell Order of each Existing Owner shall be accepted, thus entitling each Existing Owner that submitted any such Submitted Bid or Submitted Sell Order to sell the ARCs subject to such Submitted Bid or Submitted Sell Order, but in both cases only in an amount equal to the aggregate principal amount of ARCs obtained by multiplying the aggregate principal amount of ARCs subject to Submitted Bids described in clause (B) of this paragraph (ii) by a fraction the numerator of which shall be the aggregate principal amount of Outstanding ARCs held by such Existing Owner subject to such Submitted Bid or Submitted Sell Order and the denominator of which shall be the aggregate principal amount of Outstanding ARCs subject to all such Submitted Bids and Submitted Sell Orders;

(iii) If all Outstanding ARCs are subject to Submitted Hold Orders, all Submitted Bids shall be rejected; and

(iv) If, as a result of the procedures described in paragraph (i) or (ii) of this subsection (d), any Existing Owner would be entitled or required to sell, or any Potential Owner would be entitled or required to purchase, a principal amount of ARCs that is not equal to an Authorized Denomination, the Auction Agent shall, in such manner as it shall, in its sole discretion, determine, round up or down the principal amount of ARCs to be purchased or sold by any Existing Owner or Potential Owner so that the principal amount of ARCs purchased or sold by each Existing Owner or Potential Owner shall be equal to an Authorized Denomination, even if such allocation results in one or more of such Potential Owners not purchasing any ARCs.

(v) If, as a result of the procedures described in paragraph (i) or (ii) of this subsection (d), any Potential Owner would be entitled or required to purchase less than an Authorized Denomination of ARCs, the Auction Agent shall, in such manner as in its sole discretion it shall determine, allocate ARCs for purchase among Potential Owners so that only ARCs in Authorized Denominations are purchased by any Potential Owner, even if such allocation results in one or more of such Potential Owners not purchasing any ARCs.



(e) Based on the results of each Auction, the Auction Agent shall determine the aggregate principal amount of ARCs to be purchased and the aggregate principal amount of ARCs to be sold by Potential Owners and Existing Owners on whose behalf each Broker-Dealer submitted Bids or Sell Orders and, with respect to each Broker-Dealer, to the extent that such aggregate principal amount of ARCs to be sold differs from such aggregate principal amount of ARCs to be purchased, determine to which other Broker-Dealer or Broker-Dealers acting for one or more purchasers such Broker-Dealer shall deliver, or from which other Broker-Dealer or Broker-Dealers acting for one or more sellers such Broker-Dealer shall receive, as the case may be ARCs.

(f) Any calculation by the Auction Agent, the Corporation or the Trustee, as applicable, of the Applicable ARCs Rate, the Applicable LIBOR-Based Rate, the Maximum Auction Rate, the Maximum Interest Rate, the Maximum Rate, the All-Hold Rate and the Non-Payment Rate shall, in the absence of manifest error, be binding on all other parties.

The Broker-Dealer Agreement will provide that a Broker-Dealer may submit an order in Auctions for its own account. A Broker-Dealer may also bid in an Auction in order to prevent what would otherwise be (a) a failed Auction, (b) an “all-hold” Auction, or (c) the implementation of an Auction Rate that the Broker-Dealer believes, in its sole judgment, does not reflect the market for such securities at the time of the Auction. Broker-Dealers may, but are not obligated to, advise holders of ARCs that the Auction Rate that will apply in an “all-hold” Auction is often a lower rate than would apply if holders submit Bids, and such advice, if given, may facilitate the submission of Bids by existing holders that would avoid the occurrence of an “all-hold” Auction. A Broker-Dealer may encourage bidding by others to prevent a failed Auction or an Auction Rate it believes is not a market rate (although it should encourage bidding at a rate to prevent an All Hold Rate). In the Broker-Dealer Agreement, the Broker-Dealer shall agree to handle customer orders in accordance with its duties under applicable securities laws and rules.

## APPENDIX I

### SETTLEMENT PROCEDURES FOR THE TAXABLE ARCS

Capitalized terms used in this Appendix I shall have the respective meanings specified in Appendix B or Appendix H of this Official Statement.

(a) Not later than 3:00 p.m. on each Auction Date, the Auction Agent is required to notify by telephone the Broker-Dealers that participated in the Auction held on such Auction Date and submitted an Order on behalf of any Existing Owner or Potential Owner of:

(i) the Auction Rate fixed for the next Interest Period;

(ii) whether there were Sufficient Clearing Bids in such Auction;

(iii) if such Broker-Dealer (a "Seller's Broker-Dealer") submitted a Bid or a Sell Order on behalf of an Existing Owner, whether such Bid or Sell Order was accepted or rejected, in whole or in part, and the principal amount of ARCs, if any, to be sold by such Existing Owner;

(iv) if such Broker-Dealer (a "Buyer's Broker-Dealer") submitted a Bid on behalf of a Potential Owner, whether such Bid was accepted or rejected, in whole or in part, and the principal amount of ARCs, if any, to be purchased by such Potential Owner;

(v) if the aggregate principal amount of ARCs to be sold by all Existing Owners on whose behalf such Broker-Dealer submitted Bids or Sell Orders exceeds the aggregate principal amount of ARCs to be purchased by all Potential Owners on whose behalf such Broker-Dealer submitted a Bid, the name or names of one or more other Buyer's Broker-Dealers (and the Participant, if any, of each such other Buyer's Broker-Dealer) acting for one or more purchasers of such excess principal amount of ARCs and the principal amount of ARCs to be purchased from one or more Existing Owners on whose behalf such Broker-Dealer acted by one or more Potential Owners on whose behalf each of such other Buyer's Broker-Dealers acted;

(vi) if the principal amount of ARCs to be purchased by all Potential Owners on whose behalf such Broker-Dealer submitted a Bid exceeds the amount of ARCs to be sold by all Existing Owners on whose behalf such Broker-Dealer submitted a Bid or a Sell Order, the name or names of one or more Seller's Broker-Dealers (and the Participant, if any, of each such Seller's Broker-Dealer) acting for one or more sellers of such excess principal amount of ARCs and the principal amount of ARCs to be sold to one or more Potential Owners on whose behalf such Broker-Dealer acted by one or more Existing Owners on whose behalf of each of such Seller's Broker-Dealers acted;

(vii) unless previously provided, a list of all Applicable ARCs Rates and related Interest Periods (or portions thereof) since the last Interest Payment Date; and

(viii) the Auction Date for the next succeeding Auction.

(b) On each Auction Date, each Broker-Dealer that submitted an Order on behalf of any Existing Owner or Potential Owner shall:

(i) advise each Existing Owner and Potential Owner on whose behalf such Broker-Dealer submitted a Bid or Sell Order in the Auction on such Auction Date whether such Bid or Sell Order was accepted or rejected, in whole or in part;

(ii) instruct each Potential Owner on whose behalf such Broker-Dealer submitted a Bid that was accepted, in whole or in part, to instruct such Bidder's Participant to pay to such Broker-Dealer (or its

Participant) through the Securities Depository the amount necessary to purchase the principal amount of ARCs to be purchased pursuant to such Bid against receipt of such principal amount of ARCs;

(iii) in the case of a Broker-Dealer that is a Seller's Broker-Dealer, instruct each Existing Owner on whose behalf such Broker-Dealer submitted a Sell Order that was accepted, in whole or in part, or a Bid that was accepted, in whole or in part, to instruct such Existing Owner's Participant to deliver to such Broker-Dealer (or its Participant) through the Securities Depository the principal amount of ARCs to be sold pursuant to such Bid or Sell Order against payment therefor;

(iv) advise each Existing Owner on whose behalf such Broker-Dealer submitted an Order and each Potential Owner on whose behalf such Broker-Dealer submitted a Bid of the Auction Rate for the next Interest Period;

(v) advise each Existing Owner on whose behalf such Broker-Dealer submitted an Order of the next Auction Date; and

(vi) advise each Potential Owner on whose behalf such Broker-Dealer submitted a Bid that was accepted, in whole or in part, of the next Auction Date.

(c) On the basis of the information provided to it pursuant to paragraph (a) above, each Broker-Dealer that submitted a Bid or Sell Order in an Auction is required to allocate any funds received by it pursuant to paragraph (b)(ii) above, and any ARCs received by it pursuant to paragraph (b)(iii) above, among the Potential Owners, if any, on whose behalf such Broker-Dealer submitted Bids, the Existing Owners, if any, on whose behalf such Broker-Dealer submitted Bids or Sell Orders in such Auction, and any Broker-Dealers identified to it by the Auction Agent following such Auction pursuant to paragraph (a)(v) or (a)(vi) above.

(d) On each Auction Date:

(i) each Potential Owner and Existing Owner with an Order in the Auction on such Auction Date shall instruct its Participant as provided in (b)(ii) or (b)(iii) above, as the case may be;

(ii) each Seller's Broker-Dealer that is not a Participant in the Securities Depository shall instruct its Participant to (A) pay through the Securities Depository to the Participant of the Existing Owner delivering ARCs to such Broker-Dealer following such Auction pursuant to (b)(iii) above the amount necessary, including accrued interest, if any, to purchase such ARCs against receipt of such ARCs, and (B) deliver such ARCs through the Securities Depository to a Buyer's Broker-Dealer (or its Participant) identified to such Seller's Broker-Dealer pursuant to (a)(v) above against payment therefor; and

(iii) each Buyer's Broker-Dealer that is not a Participant in the Securities Depository shall instruct its Participant to (A) pay through the Securities Depository to a Seller's Broker-Dealer (or its Participant) identified following such Auction pursuant to (a)(vi) above the amount necessary, including accrued interest, if any, to purchase the ARCs to be purchased pursuant to (b)(ii) above against receipt of such ARCs, and (B) deliver such ARCs through the Securities Depository to the Participant of the purchaser thereof against payment therefor.

(e) On the first Business Day of the Interest Period next succeeding each Auction Date:

(i) each Participant for a Bidder in the Auction on such Auction Date referred to in (d)(i) above shall instruct the Securities Depository to execute the transactions described under (b)(ii) or (b)(iii) above for such Auction, and the Securities Depository shall execute such transactions;

(ii) each Seller's Broker-Dealer or its Participant shall instruct the Securities Depository to execute the transactions described in (d)(ii) above for such Auction, and the Securities Depository shall execute such transactions; and

(iii) each Buyer's Broker-Dealer or its Participant shall instruct the Securities Depository to execute the transactions described in (d)(iii) above for such Auction, and the Securities Depository shall execute such transactions.

(f) If an Existing Owner selling ARCs in an Auction fails to deliver such ARCs (by authorized book-entry), a Broker-Dealer may deliver to the Potential Owner on behalf of which it submitted a Bid that was accepted a principal amount of ARCs that is less than the principal amount of ARCs that otherwise was to be purchased by such Potential Owner (but only in Authorized Denominations). In such event, the principal amount of ARCs to be so delivered shall be determined solely by such Broker-Dealer (but only in Authorized Denominations). Delivery of such lesser principal amount of ARCs shall constitute good delivery. Notwithstanding the foregoing terms of this paragraph (f), any delivery or nondelivery of ARCs which shall represent any departure from the results of an Auction, as determined by the Auction Agent, shall be of no effect unless and until the Auction Agency Agreement shall have been notified of such delivery or nondelivery in accordance with the provisions of the Auction Agent and the Broker-Dealer Agreement.